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The New China and Hongkong

Nanking, the capital of China, has now been occupied by the Chinese Communist Party's military forces after their practically unopposed crossing en masse of the Yangtse river. The long drawn-out peace negotiations which started shortly after Chinese New Year (end of January) and which were preceded by the "temporary retirement" of Generalissimo Chiang Kai-shek have proved, as was generally anticipated, abortive and nothing else but an attempt on the part of the defeated Kuomintang to muster, if possible, some forces to resist the advance of the victorious Chinese Red Army along the southern shores of the Yangtse.

This mighty and very broad river was used, in the futile peace parleys, as an argument in favour of the KMT and it should have impressed the CCP with the dangers involved in attempting a crossing of the river and risking a great battle. However, as has now been proved before the Chinese nation, the power of resistance of the defeated and demoralised armies still under the command of KMT generals has crumbled before the determination of the so-called People's Liberation Army's offensive. That the Yangtse crossing has been effected with such speed and without hardly any serious fighting and has been made also by throwing no less than one million men and their war equipment over the river comes as a surprise even to those observers who already had discounted the publicised ability to continue the hopeless fight by the KMT forces.

In the light of the unprecedentedly fast advance of the People's Liberation Army after the CCP ultimatum expired on April 21, it must now appear to unbiased observers most generous that any terms were offered in Peiping to a virtually conquered foe. That these terms were not accepted by the KMT shows once more their political ineptitude for which they are now going to pay very heavily.

By its gigantic graft and corruption the KMT has lost every shred of sympathy abroad, and in China the common people have developed a strong sense of hatred and a desire to bring the leading officials of the KMT to book. That China's prestige

has sunk so low in the world today is the fault of the KMT and the system of a fantastically corrupt and inefficient administration which they have, by force of their secret service and an obedient, fascist officers' corps, imposed on a people traditionally patient to a degree of near indolence. The domination and exploitation of the nation by a comparatively small group of professional politicians and officers, in conjunction with several underworld secret societies' bosses, has found in the past strong objection by the politically conscious sector of the nation but their voices were stifled by an uncompromising terrorism which had studied its methods in Himmler's Gestapo academies. Around the small group of the CCP ever more students, intellectuals and the petty and medium bourgeoisie, aside of the broad masses of the farmers and the city proletariat, gathered and the leaders of all political parties, associations and movements joined the CCP in their fight to drive the KMT oppressors away and to achieve the unification of the nation.

Now, when Nanking has passed under the authority of the People's Government of China, which is commanding today the support of the vast majority of the Chinese, the former so-called National or Central Government of China has become a government in name only; most probably, the remnants of the KMT will assemble in Taipeh where already the regime's and the Party's financial reserves have been transported but certain KMT members will, for a short while, continue to hold meetings in Canton which seems to have been chosen as a temporary capital. Everything is unclear about the KMT; one has little information here and in China about the whereabouts of the principal "government" and Party leaders, and the composition of this "government" is not even known at present. Only a few "ministers" have been nominated by the KMT but not all of them have accepted and others, who have been persuaded to join the Executive Yuan in exile, are now resigning. Confusion and distress rule in those areas where KMT control still is exercised and everything is in a state of flux waiting only for the change of authority and the arrival of the Chinese Red Army. A few skirmishes may yet be fought but the civil war, to all intents and purposes, is over.

What is now going on may be described as mopping up of the remnants of the KMT army.

A new era dawns. The destiny of China is now to be shaped by the CCP who have allied themselves with all democratic political organisations in the country including the leftist wing of the KMT (known as the "revolutionary KMT committee" of which Marshal Li Chai-sum is chairman). The world must, in a positive or negative form, take cognisance of the changed conditions in China. More than at any time before in the history of the Chinese people, the new regime represents and is supported by the Chinese people. This fact must be very carefully considered by foreign governments and individuals.

A strong sense of national consciousness is developing among the Chinese which, however, under the guidance of the CCP, will not — as was often witnessed and felt under the KMT sponsored chauvinism — be allowed to grow into anti-foreignism, self-glorification and pride. Emphasis of the new Chinese nationalism is on cooperation with foreign nationals and their governments and on equality of treatment. As has been many times now officially stated in Peiping and Tientsin, the new People's Government of China desires to promote foreign commerce and to maintain and expand China's contacts with Europe and America.

In the United States there is a feeling, sedulously fostered and deepened by interested groups, to obstruct the new regime in China, to withhold official recognition when the proper time for international action comes, and to encourage whatever KMT remnants there may survive to continue some sort of guerilla on the mainland with the exiled leadership of the discredited KMT being headquartered on Taiwan. The American attitude vis-a-vis China of today is of course entirely subjected to the principles of waging a "cold" war. Only a conciliation of the explosive international situation can change the U.S. policy with regard to China. A further aggravation of the present conflict between the USA and the USSR must necessarily cause progressive deterioration of Sino-American relations — not because of Chinese hostility but as a result of U.S. politico-strategic designs in the Pacific.

From Hongkong's point of view, only friendly relations with the Chinese people can be envisaged. The inhabitants of this Colony are over 98% Chinese, and the territory of this Colony, with the exception of the island and a small area on the mainland which were ceded to Britain 100 years ago, is Chinese the lease for which is to expire in less than 50 years from now. It has become a platitude to state that the majority of the Colony's inhabitants were opposed to the former KMT regime but while considerable numbers of local residents were apprehensive of the advance of the CCP, with all its implications, they recognised that the march of time could not be turned back and that a positive attitude had to be adopted.

The hope is therefore generally held that the moderating influence of the various liberal parties and associations, which have supported the CCP in the past and which will be given responsible though not very decisive positions in the future coalition government of China, may eventually inaugurate a longer period of "New Democracy" in the new China prior to its gradual turning into a socialist state. But besides these opinions and hopes expressed here there are large numbers of especially the younger Chinese who would welcome an uncompromising and revolutionary change from the present pattern of semi-feudalism to socialism. It is a fallacy to assume that the local Chinese are politically disinterested, or are venal and only caring for their daily rice. The growing flood of political literature which is consumed by the Chinese in Hongkong should convert these complacent foreign observers, who are prone to misinform opinion abroad, to looking facts in the face. The times are too serious to play ostrich.

Since Hongkong cannot be considered a "base" for activities directed against the new regime in China, the conclusion is that either strictest neutrality must be the principle of Hongkong's policy in dealing with China in future or the establishment of unreservedly friendly relations with the new China has to be initiated.

The prosperity of the local community may thus be enhanced and there should be no ground for despondency as is, regrettably, often displayed by certain financial groups; the slump in the securities market is painful evidence of a sentiment of strong doubt in the stability of the position of Hongkong.

Cooperation with the new authorities and the people of China will bring rich rewards to the trading community here and there should be then no question raised, in China, about the status of Hongkong as a British Colony.

With return to a peace-time economy in China, spurred by the fervour of the new regime to expand production, establish new industries and develop its foreign trade, the services which Hongkong can render will assure of an unprecedented activity and commensurate profits.

On the other hand, Hongkong cannot afford to serve as a base for provocation or to deny its unrivalled commercial facilities to the rehabilitation of the economy of China. Trade with China must be encouraged by all means if Hongkong's role as the entrepot in the Far East and the principal port serving South China is to be maintained.

trust in gold more than in anything else. But we are concerned here with the particular conditions obtaining in this part of the world.

While it is now, suddenly, prohibited to buy and sell gold freely and to own gold in Hongkong there exist legally free and official gold markets in: China, Macao, Philippines, Siam, Burma, Korea, while unofficial markets operate freely in Indochina and Indonesia. Only in Malaya there exists a so-called black market which, nevertheless, is very active and does not suffer from persecution by the authorities who realise that they have to deal with Malays, Chinese and Indians and that their ideas cannot be changed by using force. Even in occupied Japan there operate gold markets which have not been suppressed by the Japanese Government as SCAP "suggestions" do not concern themselves with this business.

Within the Commonwealth there are a number of free gold markets operating; Indian gold exchanges are legal institutions and in Pakistan there are also official gold markets. The possession of gold in these two Dominions is, of course, legally protected but the import of gold, against US\$, is restricted. In the Union of South Africa free gold markets do business although in deference to the I.M.F. one talks there of semi-processed and 22 carat gold. In the Union, the world's greatest producer (monthly average almost one million ozs fine), there is very strong feeling about the fact that the country is compelled, by rules laid down by the I.M.F., to sell its biggest single export item at a sacrifice price of US\$ 35 per oz, the buyers being always the U.S. The I.M.F. and U.S. Treasury ruled gold price is uneconomical from the point of view of gold miners—in several countries the miners receive from governments the equivalent of a few US\$ as support price. Until a few months ago the Bank of England, through authorised bullion brokers, was supplying large quantities of "semi-processed" gold (sheets and bangles of 22 carat) to Near and Far Eastern buyers but the I.M.F. finally succeeded to cut down on this business thus depriving the British Treasury of additional US\$ earnings. Continental European countries and the Latin American republics, while some of them paying lip service to the Fund, continue trading to this day. There are many governments who engage freely in gold sales both of new production and of surplus monetary bullion. USSR mined gold has only in small quantities been offered in world markets and part of this gold has also come to Hongkong in the past. If Moscow deems the moment opportune and the price attractively high the Soviet State Bank will probably sell large lots.

Nothing concrete will be achieved here with the gold ban; the British Treasury and the importuning I.M.F. should have properly appraised the situation here, and also taken a long look at the map showing Hongkong in its geographic relation to the neigh-

The Gold Ban of Hongkong

A most incongruous position has arisen as a result of the ill-advised order issued here before Easter which prohibited dealing in and possession of gold. All around this tiny Colony there are official and open gold markets operating, only one government, the Chinese under Chiang Kai-shek, ever attempted to ban gold trading and to outlaw gold possession but this attempt collapsed within a few weeks after its enforcement (last August 19). This episode in China will not be forgotten for a long time; it caused universal resentment and contributed to a good extent to the chasing away of the clique which was responsible for this notorious act.

To most Europeans it might appear almost superstitious on the part of Orientals that the possession of gold, in bars and ornaments, is considered as the safest and most desirable investment. But apart from a more primitive foundation of national economies in the Far East, which still appreciate the hoarding of wealth in the forms and ways of the ancestors in preference to more modern ideas of investments (like government and private securities, bank deposits), there are added new arguments in support of the retention of the "good old" habit, caused by the havoc wrought in the recent past with the savings of the people in almost every country in the world. The common people in the Far East have seen and have been shocked that "managed currencies" lost a great deal of their purchasing power. The astounding monetary inflation in China has been a new warning to everybody in this part of the world where governments generally are not held in high esteem though they are feared. From Korea to Burma, in the countries within the dollar area (Philippines), within the sterling area (Hongkong, Malaya), within the franc area (Indochina) or in other countries in the Far East (Siam, Indonesia) the depreciation of their respective currencies has been heavy, and the "inflationary pressure" continues in several countries.

As the post-war years rolled past and the signs for a new world conflict became, on several occasions, very menacing there was renewed flight away from these many "managed currencies" into gold and other forms of supposedly safe and value-retaining investments. However, gold remained the favourite and no official decree has as yet been able to discredit gold in the eyes of the people. Not only in the Orient is gold hoarded; even the sophisticated French

bouring countries, before requesting Hongkong Government to issue the ban. The reaction here has been so unfavourable that the best course now appears to be to repeal the ban on gold possession while maintaining the prohibition on gold dealings. At the same time the prohibition on printing and publishing of information on gold transactions must be rescinded as such an order is, to all newspapers in democratic countries, very repugnant.

Multilateral Trade Pattern

International commerce is often described as a two-way street. If a country would sell goods and services abroad, it must also buy goods and services from abroad. The applicability of this fact has become increasingly clear since the war. The converse of the statement—if a country would buy, it must also sell—has become equally clear to those countries which, as a result of the war, are running large deficits in their balance of payments. But the comparison is too simple. International trade is an intricate network of trade routes with exports and imports moving in all directions over the face of the globe. Its character is essentially multilateral. The ideal situation for its operation is one in which there is maximum opportunity for multilateral settlement of balances and a minimum of trade barriers, permitting all countries to export those goods which they are particularly fitted to produce and of which they have exportable surpluses, and all countries to derive benefits from the international division of labour.

Although a return to a wider basis of multilateral trade and multilateral settlement is desirable, its achievement will be difficult. Increased resort to bilateral trade and payments arrangements to restore some measure of trade where it would otherwise be impossible, and increased use universally of import and exchange restrictions to bring trade more nearly into balance and thus effect improvement in balance-of-payments positions, are the outgrowth of the dislocations of the war.

Among the outstanding factors in current trade and payments problems are the world shortage of dollars and the inconvertibility of the pound sterling—the two most important currencies in international transactions. Inconvertibility of the pound has worked a hardship on those countries which are net exporters to the United Kingdom and to the rest of the sterling area inasmuch as surplus exports to the area could not net exchange (dollars) to the full amount of the surplus with which to offset deficits with the United States. Likewise, the sterling area has experienced added difficulties because foreign currencies earned in trade with other countries could not be fully converted to dollars. The effects have been globecircling because of the wide trade re-

lationships of the sterling area, particularly the United Kingdom, and the abnormal dependence of the whole world on United States exports. The return to convertibility of sterling, therefore, was considered highly desirable, but the world dollar shortage made a short-lived experiment of the attempt following the granting of the \$3,750,000,000 American loan to the United Kingdom in July 1947. The size of the United States postwar export balance is indicative of the magnitude of the world dollar problem. Because of the large United States export balances to nearly all countries since the war, there has been limited opportunity for trade among other countries to yield dollar returns. The large United States export surplus has been financed largely through United States loans and grants.

The need for abnormally heavy imports from the United States into other areas of the world is likely to continue for some time, but to a decreasing degree as foreign economies and foreign production are restored to a point where the countries of the world can assume their normal roles as suppliers in world commerce.

As this transition takes place, United States exports are likely to decrease, but the contraction may be only temporary. The point at which equilibrium is reached will be largely determined by the amount of goods and services the United States buys from abroad; other countries' gold and dollar-exchange reserves having been drastically reduced, imports will have to be paid for out of current earnings. Policies pursued by all trading nations of the world will determine whether the point of equilibrium will be reached on a comparatively low level within the framework of a shrinking volume of world trade restricted by controls, or whether it will be achieved on a higher level within the framework of an expanding volume of trade flowing in a world-wide multilateral pattern. The policies also will determine whether the world can look ahead to rising levels of world trade on a long-term basis. The gains which are made will rest on internal economic stability, political and economic stability abroad, assuring conditions which will encourage the flow of capital for investment and for development; and rising living standards, which will mean larger world markets and increased availability of goods.

Trade Restrictions and Unbalance of Payments

Since the end of the war, the majority of countries have had large import surpluses and have suffered from increasing pressure on their balances of international payments. To a considerable extent, these difficulties were inherited from the 1930's, which was a period of disturbed international economic relations. The war had caused further dislocations, reflected in the exhaustion of stocks of goods, the destruction of productive power, domestic inflationary pressure and changes in international financial relationships. In many countries today there continues pressure on the balance of payments as a whole, while in others surpluses earned in transactions with some areas cannot be employed for financing deficits with other areas, particularly the Western Hemisphere. The gaps in the balance of payments of countries exposed to pressure in their international transactions have been filled in part through the liquidation of their official gold and dollar assets and in part through credits from governments and inter-governmental agencies. Particularly at the time of the abortive attempt to restore free convertibility of sterling in the summer of 1947, however, outstanding credits as well as gold and foreign exchange assets were being depleted. In the following few months, there occurred a severe deterioration in the international payment situation of many countries. Several countries had to tighten import restrictions and ex-

change controls in order to reduce imports or redirect trade so as to render settlement possible through bilateral exchange.

These external disequilibria were linked in various ways with the internal economic dislocations. Thus the crop failure of 1947 in a large part of Europe rendered a number of countries dependent to an increasing extent on imports of foodstuffs. The shortages and rising prices of foodstuffs involved heavy pressure on the countries which had to import more than usual and hastened the deterioration of their exchange positions. The situation worsened further as a result of shortages of certain other commodities, particularly of raw textiles and non-ferrous metals.

The pressure on international payments continued, in general, during 1948. It was mitigated to some extent, however, by new United States loans and grants to a number of countries in the form of "interim aid" at the end of 1947, followed in April 1948 by the more comprehensive European Recovery Program (ERP). By the middle of 1948 additional relaxation resulted from the outlook for improved crops and from a drop in cereal prices. There was, however, no general decline in prices in international markets, owing partly to increased demands for strategic materials for stock-piling purposes.

Since the market for foreign loans floated in countries that used to lend abroad has remained negligible, and since the official liquid foreign assets of countries exposed to pressure in their international payments have shrunk and cannot easily be reduced, the latter countries will not be able in the near future to finance as heavy import balances as in 1947, even taking into account the foreign aid they are receiving. Since the demand for foreign goods in these countries remains high, however, the reduction that has occurred in their net imports from the United States has been accompanied by an increase in the exchange of goods with other countries, chiefly through increased bilateral balancing of accounts.

In many countries, this change has been brought about in part by restrictions on trade, which have naturally increased the pressure on other countries. At the same time, the direction and the commodity composition of trade have been affected by post-war changes in the volume and nature of exportable supplies and import requirements. Both these factors have contributed to the lack of stability in the international payment situation in 1948. Certain countries which were considered as "surplus countries" in 1947, such as Argentina, Sweden and the Union of South Africa, experienced a weakening of their international payment situation during 1948. On the other hand, Belgium, despite the impact of war devastation, has emerged with the "hardest" currency in Europe, next to the Swiss franc.

There is no clear indication of the pattern of trade that will emerge after the prevailing strain on international payments has subsided. Few currencies are freely convertible at present, and there is frequently no common price for the same type of commodity derived from different sources of supply. Private importers in "soft-currency" countries naturally seek to buy goods at the lowest possible prices, which usually requires expenditure of "hard" currency. Private exporters, on the other hand, prefer to channel sales to markets willing to pay prices which, at prevailing exchange rates, yield the highest proceeds in domestic currency, thereby frequently reducing the inflow of hard currency which would render possible imports at low prices. The resulting unbalance of trade, which drains the country's gold and foreign currency reserves, has forced many governments to tighten exchange controls and licensing systems so as to redirect trade. As a consequence, goods frequently have to be bought in soft currencies at prices which, at prevailing exchange rates, exceed those in the cheapest markets, while exports are diverted to countries willing to pay in hard currency but at lower prices. Naturally, this re-orientation of trade, which discourages both imports and exports, is not always

REPERCUSSIONS OF THE GOLD BAN

While resentment especially with regard to the manner in which the gold ban was imposed here has not abated, the fears, entertained by many local residents and those Chinese in the interior who hold a substantial portion of the Hongkong currency issue, about the future stability of the HK\$ have now subsided. There is however a lurking suspicion that prevents for the time being the consolidation of the position of the local dollar.

In terms of free market US\$, silver and a large number of commodities as well as jewellery (made of silver, platinum and some other valuable metals the name of which is prohibited to mention) the Hongkong dollars has in fact depreciated since the ill-advised ban on gold dealing, of possession and on information was decreed here. Business in valuable metals continues and everybody who has an interest in this trade is well informed, just as before. But the local variety of an iron curtain has descended as far as the printed word is concerned. We wonder what the freedom-loving British people in the Commonwealth, outside this paternally ruled little Colony, are

easy to carry out. Even when deficits with hard-currency countries are successfully reduced, the threat to the balance of payments as a whole may not be averted. An array of measures has been used by various countries to meet the resulting situation: subsidies in favour of exports, differential rates of exchange for imports and exports or an outright depreciation of the national currency, as well as anti-inflationary measures which contribute to the balancing of accounts even when not introduced primarily for that purpose.

The disturbances in international economic relations remain so pronounced and the problems facing countries in their efforts to approach equilibrium in their balance of payments so complex and varying that probably no simple way out of the difficulties can be found. The situation has been summarized in the following way by International Monetary Fund: "The countries which have been devastated by the war cannot be expected to balance their international payments at once, and no exchange depreciation, however severe, would enable them to achieve such a balance at a tolerable level of imports.... The unbalance of many economies throughout the world today is of too fundamental a nature to be corrected merely or even mainly by exchange rate adjustments." The Fund also points out that "the fundamental conditions which would make possible the abandonment of trade and exchange restrictions are...entirely absent today in most of the world."

Exchange & Financial Markets

thinking of the imposition of a ban on reporting on developments in the gold bullion market.

Rumours of a possible HK\$ devaluation were circulating widely but when the Financial Secretary made a statement to the effect that no such measure was considered these apprehensions were calmed. An extract of the Financial Secretary's statement follows:—

The rumours of devaluation of the HK\$ are irresponsible and unwarranted. The Colony rests on a sure basis of financial security. Its currency is linked to sterling. Since 1935 the HK\$ has been maintained at one shilling and three pence both before and after the Japanese occupation. All Hongkong currency notes above the value of one dollar are issued under authority from Government by the three note-issuing banks. All these note issues are fully covered by sterling. The Hongkong Currency Ordinance of 1935 established an "Exchange Fund" under the control of the Financial Secretary for the maintenance of the exchange value of the currency and subject to audit at all times. All the note-issuing banks surrendered to this Fund all the silver coin and bullion which had previously been deposited as security for their note issues. For every note issued by them, the note-issuing banks are required to surrender to the Fund sterling to the full face value. Against the surrender of the sterling, the Financial Secretary issues a certificate of indebtedness.

It has been intimated to us that our reporting on financial developments in the gold market was mainly responsible for the imposition of the Ban. While we are very flattered and are blushing to hear that this little paper has been read with much attention in London, we cannot seriously believe that (1) it was rather publicity than actual trading which caused the interference by the I.M.F. and the British Treasury, and (2) that just the reports in this Review and not the information published in so many daily papers here and in China were regarded as authoritative. We do not deny that we are well informed and that we take care to publish only such matter which we could verify as to their accuracy although errors are bound to crop up here and there. We had the privilege to talk with members of the I.M.F. executive staff when they called on Hongkong and at this office and we tried to be helpful with information never concealing our conviction that the free gold and free exchange market of Hongkong was one of the principal contributing reasons for Hongkong's conspicuous post-war prosperity.

Hongkong Government has never suggested that gold market reports be toned down or that gold quotations be discontinued. Only at one time did Government, through its P.R.O. and indirectly through other officials, suggest that the Press "cooperate" when reporting on financial markets, and that was when the "gold" yuan was introduced in China. At that time Government suggested that only the official rates of the Central Bank of China be published and that no mention was to be made of black market rates. We did not see our way then to oblige and

what we thought of the whole suggestion which was tantamount to voluntary suppression of factual reporting was published in our issue of October 13, 1948, pp. 369/70. We then quoted, inter alia, a prominent Chinese businessman's opinion as to publicity and black markets, viz. "It is not the publication of prices creating or stimulating a black market but the developments on the black markets which make news and provide material for publications. It is useless to suppress the publication of such news; the black market must be suppressed." In connection with the Hongkong Government imposed gold ban the above quotation should be read very carefully.

The cooperation of the local public and the Press was also sought at that time by complying with the regulations of the then Nanking authorities which stipulated that it was illegal to import or export an amount in excess of "gold" yuan 20. Hongkong Government rushed to extend that Chinese regulation also to this British Colony and it was accordingly gazetted that any amount exceeding 20 "gold" yuan carried into or out of the Colony will be confiscated. A large number of cases were then reported in the daily papers when Chinese travellers and traders lost their excess yuan scrip which amounts were later handed over by the local Government to the Chinese authorities, to make "cooperation" perfect—at least on one side. Meanwhile 20 "gold" yuan have depreciated to virtually nothing but the Hongkong Government prohibition still stands.

This fact is cited only to show that it is not always simple to follow official suggestions when it comes to matters of publicity. However, as far as gold transactions were concerned no suggestions were ever made to the Press, as far as we have learned.

With the gold ban of April 14, the damage has been done. The responsibility rests clearly on those who have ordered it. The local Government has only carried out what was ordered and, it is supposed, tried previously to convince London that the imposition of a gold ban would have detrimental effects generally. All local counsels were however of no avail with the politicians in London who exercise often controls for controls' sake. In the Government explanatory note (vide our last issue for full text) one can read that "It has been pointed out that the gold market in Hongkong does in fact have the effect of establishing new rates of exchange." Who, may we ask, is that modest economist who "pointed out"? Now, there is no longer a gold market—officially—in Hongkong but the rates of exchange have much increased in terms of HK\$; the US\$ on the open market has within one week advanced from 7 to 13%. Even if there was no gold transaction whatsoever going on here, the open market exchange rate of HK\$ would have suffered last week. The previous free convertibility of HK\$ into gold has only injected a strong sense of confidence on the part of the Chinese in the local currency. Although the precious metal can still be bought and sold a free market has been suspended for the time being. It is, how-

ever, hoped in the interest of the re-establishment of full cooperation between the public and the Government, and for the benefit of real financial stability in oriental Hongkong that the gold ban be modified and later lifted altogether.

It must be emphasised that the local authorities better than anybody else in the Commonwealth realise the importance of the operation of a free economy in Hongkong and that they should not be blamed for the imposition of the gold ban. The unfortunate fact arises once again that the well-being and the opinions of local citizens are not considered of much importance when it comes to decisions in London. This is the result of the system of benevolent autocracy under which we live here. A decision reached by certain officials in the British Treasury, transmitted through the Colonial Office, has the effect of obliging Hongkong Government to legislate or otherwise make orders which, against their better knowledge, may harm the economy of the community here.

NEW JAPANESE EXCHANGE RATE

SCAP announced on April 22, with effect from April 25, that the new single exchange rate of the Bank of Japan yen was to be fixed at Yen 360 per US\$1, with other exchange rates to be fixed in accordance with exchange parities as laid down by the International Monetary Fund. Accordingly, one HK\$ exchanges for Yen 90 and one £ for Yen 1449.

The military conversion rate has been abolished. All commercial and financial transactions have now to be conducted at the official exchange rates. Last July 5, the military conversion rate was advanced from Yen 50 to Yen 270 per US\$1, and this rate has been valid until now. A black market in Tokyo and other larger Japanese cities exchanged recently one US\$ for Yen 320 to 400 but the level during the weeks preceding the announcement of the new exchange rate was about the same as the present rate. HK\$ notes were exchanged at a cross around US\$3 to 3.10 per £. The advance in the new exchange rate over the previous so-called conversion rate amounts to 33.34%.

Most manufacturers will be satisfied with the new single rate as their exports should not encounter any particular difficulties abroad with the exception of a few branches of heavy industry and some sundry producers who will require, and obtain, temporary subsidies from Government prior to their reorganisation, rationalisation or merger. Imports will, to some extent, require for a period official support so that raw materials will continue to be available to the exporting industries.

The Japanese public, long expecting the announcement, has welcomed the new rate which is generally thought to be fair both to importing and exporting interests. At last, Japan enters

the field of foreign trade and international finance on equal terms with others. But many disabilities imposed on Japan have yet to be removed before pre-war trading patterns between Japan and foreign nations can be reinstated.

New gold and silver bullion rates will be announced shortly. The previous rates were Yen 320 per gram of gold, and Yen 6325 per kilogram of silver. The new official rates will be Yen 426 and Yen 8433½ respectively. The official fine oz gold parity, in terms of US\$, would be around 36½ to 37½. On the black markets one troy oz gold costs the equivalent of US\$ 48/50. Silver bullion is valued officially at an equivalent of US\$ 0.75 per troy oz.

US\$ Market

Very large demand for US notes, drafts and free funds in New York carried rates to peak levels. Highest & lowest rates of last week (per US\$ 100) were: notes HK\$600—550 (corresponding to crossrates of US\$2.66—2.91 per sterling); DD HK\$567—534½; TT HK\$570—536, corresponding to crossrates at the parity (1/3d per HK\$), of US\$2.807—2.985.

(Cross rates went up to US\$50½, low, 51½, high, an increase of US\$1½ over last week).

Compared to the prices of April 14 (prior to the announcement of the gold ban in Hongkong) the increases last week amounted to 12.8% for US notes, 7.4% for drafts, and 7.6% for TT. In overseas free exchange markets sterling quoted as before, from 3.10 to 3.30; consequently, arbitrage was greatly stimulated as Hongkong was quoting the by far lowest unofficial cross which was from 8 to 14% below the New York price for convertible sterling. The heavy local demand for US notes resulted in a 5% premium over TT New York and as a result the import of US notes should be most profitable as long as the current difference lasts.

Importers held back with orders as, at current TT rates, purchases of merchandise which has to be paid for in US\$ would have been unprofitable. Working on profit margins of under 10% the increase in the unofficial TT rate could not have been absorbed by importers except if wholesale prices could be pushed up. Goods of American origin and such merchandise imported from countries where US\$ are resorted to for payment of invoices showed steadiness and an upward tendency. Importers of metals were less concerned with the high TT rate as the retail prices of their cargo advanced in line with the unofficial exchange rate. Thus, while their cargo was up from 4 to 10% over last week (April 14), TT New York went up from 5 to 7%. These cargo importers and dealers were making the highest profits recorded for this year. Holders of US drafts, mostly from overseas Chinese remitters, were hesitant to sell expecting higher rates,

and so did many exporters whose free proceeds in New York, they believed, would bring within a few days still higher amounts in HK\$.

Significant were developments in the US\$ markets in various Chinese cities; while in Shanghai the price for US\$ dropped towards the end of last week and especially at the opening of the current week, quotations in Amoy, Canton and Taiwan mounted. In the words of a local native banker, that "showed where the rich KMT and officers' cliques were assembling." Under the incoming new authorities in Nanking and very soon, also Shanghai the trading in foreign currencies will be banned while business in silver and other valuable metals is legally protected. Thus, holders of foreign currencies in Shanghai were converting them into silver etc. which caused the comparative decline in US\$ rates and the soaring of prices of silver etc. On the other hand, buyers of US\$ in Canton, Amoy and Taiwan were offering, besides tons of "gold" yuan, large stocks of commodities, silver etc., houses, motor cars. These people, mostly connected with the KMT, came also in the Hongkong market where they bought up what was on offer. In addition to this insistent demand there appeared many local buyers of US notes and TT who wanted to comply with the Hongkong Government gold ban and accordingly changed over to US notes. To change over to HK\$ or local securities did not enter into their investment considerations. It is also estimated here that large amounts of HK notes flowed back to Hongkong as holders in Canton and in Kwangtung generally preferred more substantial matter to paper currency.

Silver Markets

As a result of the gold ban, silver prices firmed up and there was much interest displayed by a new type of investor. Highest & lowest prices, in HK\$, per tael (in bars) 4.15—4.10, per dollar coin of local and Mexican mints 3.00—2.90, per 20 cents coins (per 5 pces.) 4.00—3.60 (old mints), 3.60—3.40 (new coinage), Chinese dollar coins ("big and small heads") 5.50.

Imports of bar silver were small, exports were going to Canton and Tsam-kong (Kwangchow-wan) estimated at around 15,000 taels (in bars and coins). Demand in China for silver is persistent not only because of the people generally using silver coins but also on account of various Provincial authorities making preparations to mint their own regional silver currency. Under these conditions exports to London will be curtailed and unrecorded shipments to the U.S. may cease. The prices offered by buyers in China exceed overseas quotations. Local stocks of silver will dwindle within a short time and the silver market will experience a very quiet trading period.

Silver coins have become the generally demanded and accepted means of payment in south and west China, the yuan of the Central Bank of China practically disappearing and being rejected everywhere as if it was money tendered by forgers and swindlers. Im-

FAR EASTERN ECONOMIC REVIEW

HONGKONG OPEN MARKET RATES per US\$100

April	Notes		Drafts		T. T.	
	High	Low	High	Low	High	Low
18	5.75	5.50	5.48½	5.41	5.52	5.44½
19	5.95	5.60	5.67	5.35	5.70	5.40
20	5.62	5.53	5.39½	5.34½	5.45	5.36
21	5.90	5.65	5.56	5.38	5.60	5.42
22	5.95	5.67	5.58	5.47½	5.60	5.52
23	6.00	5.67	5.60	5.44½	5.63	5.49

ports of silver into China should now be profitable and foreign mints may obtain contracts from one or the other regional authority in south and west China to produce replicas of the two principal Chinese dollar coins circulating all over the country.

Silver Bullion & Coin Imports & Exports

Trade in March:—(all in bars or ingots) imports came from Malaya 20,000 ozs valued \$43,200 (a price of \$2.16 per oz), and from North Korea 66,444 ozs valued \$149,499 (a price of \$2.24 per oz), a total of 86,444 ozs at \$192,699. Exports were shipped to the U.K. 159,465 ozs valued \$529,302 (cost per oz \$3.32) and to North Borneo 690 ozs at \$2,066, a total of 160,155 ozs at \$531,368. Recent highest & lowest prices per oz \$3.41—3.25. These were the officially recorded imports and exports. There have been, in addition, large imports of silver mostly in bars and ingots arriving here from China. Considerable export shipments were registered by the trade as a result of heavy demand in the interior for Chinese silver coins which command a big premium in China over the silver contents value. Estimated turnover in the silver market during March: 360,000 ozs.

Trade for the first quarter of 1949:—imports totalled 283,589 ozs valued at \$480,939, arriving from Malaya 50,000 ozs at \$110,700, Korea 209,018 ozs at \$292,139, and Macao 24,571 ozs at \$78,100. Exports totalled 976,678 ozs valued at \$3,226,033, shipped to the U.K. 975,988 ozs at \$3,223,967, and to North Borneo 690 ozs at \$2,066.

Exports to the U.S. have ceased. Shippers here have to surrender 25% of their US\$ proceeds when exporting to New York. Most of the silver exported from here to the U.K. eventually is re-exported to the U.S., the largest consumer of silver. In the first quarter of 1948 exports valued \$5,223,388. There were no officially recorded imports. This year's reduction in silver export business, as far as official records go, amounts to 38.24%.

Jewellery, Platinum

Platinum had more buyers than for many weeks past but only Japanese plates are on the market which sold at around \$425 per tael. As however from the Japanese platinum the iridium has been extracted its value is considerably below the metal sold in London and New York. From the U.K. platinum is available only if buyers pay TT

New York—a procedure which is adopted by many countries whenever there is strong demand for a certain cargo which is otherwise difficult to procure. The world market price is determined in New York where now US\$75/78 per oz are paid (against a highest price in 1948 of US\$92). More Chinese customers take to platinum for having diamonds and other stones set in but there is also some demand for this metal by investors.

All platinum which has been exported to Hongkong and other places in the Far East has been well consumed and demand has recently exceeded supply. Officially, Japan cannot export platinum and therefore the price is higher than would be the case if no special transport fees had to be defrayed.

Diamonds found good buyers at about HK\$2200 to 2500 per carat of the pure white South African stones (of average weight from 1 to 2 carats). At the beginning of last week, out of uncertainty about the value of HK\$ following the gold ban decree, prices were higher but later they fell back to their pre-Easter level. Considering the high TT New York price on the market local diamonds are far below world market prices (some 20%). Jewellers and dealers are well supplied with stones and that is the reason why the market remains on the easy side.

There was a very large demand for rings, bangles, chains and other ornaments made of gold. Silver jewellery, on the other hand, is neglected and only small sales take place; the traditional silver treasures which were bought in the years before the war and which are found in every middle class Chinese home no longer find favour with the present generation. Gold jewellery is the craze of young and old; it is mostly sold as so-called Chinese gold (said to be 24 carat but actually of .99 fineness, guaranteed only by the reputation of the goldsmith).

Young people who entered into holy matrimony last week had to pay from 4% to 10% more for their wedding rings than before Easter. Other people here thronged goldsmith shops as they were motivated by fears about the future value of HK\$. Old timers confirm that never before has one seen so many Chinese in this Colony wearing gold rings and other ornaments (around arms, necks etc.). Most jewellery is sold here as "Chinese gold" smaller lots only at 22 carat. In Europe the custom is to buy articles of 14 to 18 carat. Only in Shanghai, for "face"

reasons, many customers buy 9 carat articles and others are satisfied with double. Not so in South China where ornaments have to be made of the real McCoy.

Bank Note Markets

Highest & lowest rates of last week (in HK\$):—

	High	Low
British pound . . .	15.85	15.70
Australian pound . . .	13.50	13.10
Canadian dollar . . .	4.75	4.70
Malayan dollar . . .	1.79	1.76½
Philippine peso . . .	2.69	2.62
Indian rupee . . .	1.09½	1.08¾
Nica guilder . . .	0.323	0.318
Siamese baht . . .	0.241	0.239
Indochina piastre . . .	0.111	0.0937½

Bank of England notes were much in demand as New York prices (from US\$ 3.20 to 3.22) equalled at the current open market TT rate about HK\$18½. The local price being 13% lower than the New York market equivalent, buying appeared profitable. Further rise in price is anticipated, bringing the pound note above the official TT London and the Hongkong parity. Travellers arriving here from Europe benefitted when selling pound notes rather than drafts issued to them by banks in London.

The piastre market transacted an unusually large volume, mostly on the forward (mostly fictitious, margin clearing) market. Speculative capital wanted new outlets although it was well spread in the old avenues. Besides the usual merchant demand which rises when Indochina goods are arriving, there is also some speculative buying of notes in the spot market as optimists still believe in an "early settlement" of the Indochina shemozzle. But peace in the South is far off. New issues made by the Banque de l'Indochine in Saigon (500 and 1000 denominations) acted as a deterrent to larger purchases.

"Gold" Yuan—Obituary

De mortuis nil nisi bene—but about the "gold" yuan of the Central Bank of China posterity will speak nothing but evil. The history of this gigantic fraud will have to be told soon: how the people under dire threats were compelled to surrender to the Kuomintang authorities their gold, silver and foreign currencies, how people were tortured, put into concentration camps and few were even publicly executed in order to intimidate laggards who did not quickly enough surrender; how the printing presses restarted overtime work as soon as the loot was collected; and how most of this loot has gone into the hands of a few who still keep these ill-gotten bullion and foreign assets for a "rainy day".

Last week the end of the "gold" yuan approached. It was no longer accepted although Shanghai still quoted rates and a small number of deals were concluded in terms of this scrip.

Hongkong's open market quoted highest & lowest rates, per 100,000 yuan—notes HK\$ 6.80—1.20, TT

Shanghai 2.25—0.54, TT Canton 4—1. Shanghai's rates were approximately from 9 to 32 million per oz of gold, 190,000 to 650,000 per one US\$, and 35,000—118,000 per one HK\$. The export clearance certificate rate came to a stop after being quoted from 120,000 to 180,000 yuan per US\$. HK note and gold crosses ranged from 54 to 58, and from 48 to 51 respectively. Canton quoted one HK\$ up to 95,000 and TT Hongkong in excess of 100,000 yuan.

Practically all China remittances, inward and outward, handled here were conducted in HK\$ with commissions charged ranging from 1½ to 3% (according to location of place of remittance in China). Only to Amoy, where one of the largest free US\$ markets in South China operates, remittances were sent and received in US\$.

Domestic remittances dispensed with the "gold" yuan and were based on silver coins (of Chinese mint only). The Chinese silver dollar has now become, pending the change-over in the central authority, the people's currency in south and west China.

As many commitments in Shanghai had still to be settled there was some need to pay off in "gold" yuan, but in most cases no longer were Central Bank of China scrip used but book entries took place. The highest rate of interest was charged last week in Shanghai: 100% per day.

In Formosa there were again efforts made by the native population to be favoured with a new currency entirely separated from the "gold" yuan—but to no avail. There is so much loot from China now in Formosa which could easily guarantee the establishment of a new Formosan yuan, at the ratio of 2 to US\$ 1. But the fortunes spirited away to the Island are private holdings of KMT and its small entourage.

North China Foreign Exchange Banks

The following three foreign banks have been authorised by the Bank of China in Peiping, under instruction from the People's Bank of China, to handle foreign exchange in China—Hongkong & Shanghai Banking Corp., Chartered Bank of India, Australia & China, and Banque Belge pour l'Etranger. In addition, seven Chinese banks have also been authorised for the same purpose, viz.—Bank of China, Shanghai Commercial & Savings Bank, Kin-cheng Banking Corp., Chekiang Industrial Bank, National Industrial Bank of China, Sin Hwa Trust & Savings Bank. The managers of these ten banks advise the Foreign Exchange Office concerning the establishment of the exchange rates and on other business which affects foreign trade. The exchange rates are being quoted in conformity with the requirements of the market and are regulated by the daily demand/supply position. (Further reports on financial conditions in North China will be found in this issue in two articles dealing with Tientsin and Peiping).

Hongkong Stock & Share Market

There was only a short interval of higher bidding, at the opening of the Exchange after the Easter holidays, caused by the uncertainty about the local Government's policy with regard to gold holdings and dealings further aggravated by reports in the local and Canton markets about the possible devaluation of HK\$. The shortlived buying interest abated and towards the end of the weekly session sellers were again very much in evidence.

The lack of confidence in the future of Hongkong has again been underlined by the price decline after the short rally. It appears that there cannot be any real recovery in rates until a better sentiment prevails which, however, depends entirely on the principal investors' opinions about events in China. To take a defeatist view and imagining all sorts of mischief from the future central government of China is most harmful to the general interests of the community here. There is no substance to rumours about the possibility of a change in the status of Hongkong—and it is exactly this apprehension which is at the back of the continuing low price level of local securities.

Symptomatic of the present attitude of shareholders was the behaviour witnessed on Tuesday, the first trading day after the holiday, when a few bigger buyers, out of fear about the consequences of the gold ban, made inquiries. They were swamped with offers and sellers became quite excited seeing now a chance to get a better price than they dared hope for a long time. On Wednesday buying interest slackened which was largely due to the lack of caution on the part of prospective sellers.

Meanwhile investors who purchased stocks about one year ago counted their losses, on the basis of current market rates, at a percentage from 30 to 60.

The yield has proportionately increased. Provided that earnings should, as they most probably will, turn out to be on the 1948 level or even in excess of it, and market rates remain more or less unchanged, an average return of 11 to 16% on Industrials is assured. Compared with the current negligible interest rate granted by banks on 6 and 12 months deposits of ½ and 1% respectively, and the interest rate on Government loans of 3½%, the prospects which the share market offers to investors are unrivalled. Even the highest private interest rate on mortgages is only from 14 to 18% p.a.

In this connection the outlook for the flotation of the second portion of the Rehabilitation Loan appears unfavourable. The first \$50 million were fully subscribed but the money came mostly from trust funds with Singapore contributing also a few millions.

The interest rate of 3½% is certainly not adequate to induce holders of savings and current accounts to shift their funds over to a holding of a Government loan. Government here has delayed the flotation of the second portion (\$100 million) of the Loan as sufficient surplus funds were available for the time being to finance expenditure under Loan appropriations, these funds having accrued from ordinary revenue excess over expenditure and so-called floating balances of Government trading activities (through the former Dept. S.T. & I., now called Supplies & Distribution). The reason given for this delay was that Government was thus able to save interest payment. However, under present conditions the success of a flotation would appear most doubtful unless the form of the second and final portion of the Loan is to be in connection with a Lottery.

The monetary situation is most contradictory: on one hand there is a very great plethora of funds with both conservative and "hot" investors exploring all possible avenues for investment and profitable employment of money. On the other hand, the stock market would provide the desired absorption offering first-class securities which yield 10 to 15% on the average—but investors shun this inviting chance for fear of the "uncertainty". The gold ban, imposed here as from April 14, has of course further contributed to this "uncertainty" and is now being taken as one more argument to remain on the *qui vive*. If it was possible that such an important measure as the gold ban was taken without warning and without any consultation, the question what further official interferences in business may be contemplated becomes very pressing.

Volume of Business:—Total Sales reported amounted to 72,750 shares of an approximate value of \$2½ millions, an increase of \$¾ million compared with the preceding week.

Price Index:—The Felix Ellis averages based on the closing prices of twelve active representative local stocks after recovering 2 points at the height of the market on Tuesday lost all gains to close at 129.40 for a net loss of .04. Day-by-day his averages were: April 19, 130.51; Apl. 20, 129.84; Apl. 21, 129.56; Apl. 22, 129.40;

	High	Low
1947	155.82	123.88
1948	148.68	134.05
1949	138.37	129.01

Dividends:

The Indo-China Steam Navigation Co. Ltd., have declared a dividend of Sh.6/- on Preferred Shares and a dividend of Sh.10/- and bonus of Sh.10/- on Deferred Shares, all less taxes.

The Chinese Estates have declared a final dividend of \$5 per share, free of tax.

The Shanghai & Hongkew Wharf & Godown Co. Ltd. have declared a final dividend of HK\$2 per share for the year 1948.

Business Done:

H.K. Govt. Loans: H.K. Govt. 3½% (1948) @ 102½.

Banks: H.K. Banks @ 1710, 1720, 1710, 1715.

Insurance: Canton @ 355; Unions @ 710, 690, 700, 710.

Shipping: Asia Nav. @ 80 cts.

Docks & Godowns: H.K. & K. Wharves @ 124, 123; N.P. Wharves @ 6, 5.70; H.K. Docks @ 20½, 19½; China Providents @ 16, 16.20; 15½, 15; Shai Docks @ 8.70, 9, 8¾; Wheelocks @ 30, 29½.

Hotels & Lands: H.K. Hotels @ 12½, 12, 11¾; Lands @ 53½; S'hai Lands @ 2.75, 2.60, 2.50, 2.40, 2.20; Humphreys @ 11.90.

Utilities: H.K. Tramways @ 18.10, 18, 17¾, 17½, 17; Star Ferry @ 117.116; Light Old @ 14½, 14.80, 14.90, 14.60, 14.20, 14, 13.80, 13.60, 14, 13.20, 13.10; and New @ 10.70, 10.80, 10.90, 10.60, 10½, 10, 9½, 9.30, 9.40, 9.20, 9, 8.90; H.K. Electrics @ 37½, 39, 36¾, 36, 35½, 35, 34¾, 34½, 34¼, 34½, 34, 33¾, 33½, 33, 32, 32½, 32; Telephones @ 25.

Industrials: Cements @ 31½, 30; H.K. Ropes @ 16.80.

Stores: Dairy Farm Old @ 39, 34, 34½, 34, 35 and New @ 38½; Watsons @ 48, 47, 46, 45, 43, 44 44½, 44, 43½.

Cottons: Ewos @ 7½, 7.40, 7.30, 7.20.

THE HONGKONG AND KOWLOON WHARF AND GODOWN COMPANY, LIMITED.

NOTICE TO SHAREHOLDERS.

NOTICE is hereby given that an EXTRAORDINARY GENERAL MEETING of the Company will be held at the Office of Messrs. Jardine, Matheson & Co., Ltd., Peader Street Hongkong, on Friday the 20th day of May, 1949, at Noon for the purpose of considering and, if thought fit, passing the following Resolution as a Special Resolution:—

"That the following shall be substituted for Clause 95 in the Articles of Association of the Company:—

"Each Director of the Company shall be paid out of the funds of the Company remuneration for his services at the rate of \$2,500.00 per annum and such further sums as the Company in General Meeting may from time to time determine."

By Order of the Board of Directors.

G.B.S. THOMSON
SECRETARY.

Hongkong, 26th April, 1949.

NOTICE

THE DAIRY FARM, ICE & COLD STORAGE CO., LTD.

Notice to Shareholders

NOTICE IS HEREBY GIVEN that the Forty-ninth Ordinary Yearly Meeting of the Shareholders in the Company will be held at the Company's Office, Windsor House, Mezzanine Floor, Hongkong, on Thursday, 5th May 1949 at 11 a.m. for the purpose of receiving the Report of the Directors together with Statement of Accounts for the year ended 31st December, 1948, to sanction the declaration of a Dividend and to re-elect Directors and Auditors.

The Transfer Books of the Company will be closed from Thursday, 21st April to Thursday 5th May, both days inclusive.

By Order of the Board of Directors.

A.A. BRENNER,
Acting Secretary.

Hongkong, 13th April, 1949.

Hongkong Industrial Report

Factory Registrations

During March, the number of applications received by the Labour Office for registration was 55, i.e., 30 in Hongkong and 25 in Kowloon; whereas 23 applications and registration certificates were cancelled, 1 in Hongkong and 22 in Kowloon, and 20 registration certificates were issued, 2 in Hongkong and 18 in Kowloon.

Registration of Factories:—applications in Jan. 11, in Feb. 13, monthly average 1948: 12. Certificates issued in Jan. 22, in Feb. 16, average 1948: 24.

The total number of factories for which registration certificates have been issued up to 31st March 1949 is 1,227, or 312 in Hongkong and 913 in Kowloon.

In the course of the first quarter of 1949, 58 workshops and factories in Hongkong and Kowloon, employing 1,841 workers, were registered at the Labour Office:—

	No. of Factories	Men	Women	Total
Batteries (dry) ..	2	11	22	33
Bean Curd	1	3	—	3
Biscuits & Confectionery	2	52	30	82
Buttons	1	20	30	50
Canned Goods	1	12	—	12
Cloth Calendering	2	24	8	32
Cold Storage and Plastics	1	60	60	120
Cotton Mill	1	50	130	180
Dyeing	1	7	—	7
Dyestuffs	1	6	—	6
Enamel wares	1	60	25	85
Engineering	1	8	—	8
Flour & Rice mills	1	25	—	25
Garage	1	138	—	138
Garments & Shirts	2	15	25	40
Gramophone Records	1	10	15	25
Hosiery	1	2	14	16
Knitting	3	16	40	56
Laundry	1	8	—	8
Lime	3	74	13	87
Metal wares	3	92	12	104
Needles	1	270	130	400
Noodles	2	12	—	12
Printing	15	132	2	134
Rubber wares	1	15	17	32
Saw Mill	1	4	—	4
Tannery	1	31	—	31
Tooth Brushes	1	15	3	18
Torches (Hand)	1	4	30	34
Type	1	13	2	15
Vermicelli	1	4	—	4
Weaving (Cotton)	2	10	30	40
	58	1203	638	1841

The applications for registration in March comprised 32 printing works, 4 confectionery and sweets factories, 3 enamel ware concerns, 2 each metal wares, garments and shirts, and tin cans, and 1 each foundry, engineering, saw mill, batteries (dry), lamp mantles, cotton quilts, tooth brushes, ink, mirrors, and ice cream.

Twenty concerns closed down in March: 3 engineering, 2 each knitting, cotton weaving, saw mills, and rubber factories, 1 each rice mill, cotton mill, laundry, rubber soles, cotton quilts, pigments, electric lamps, electric batteries, and hats. During January and February the closures were 9 and 11 respectively, comprising: 3 cotton weaving mills, and 1 each printing press, type founders, metal works, silver refinery, can maker, textile mill, rubber workers, telephones, bakery, knitting mill, ceramic factory, flashlights, handicrafts, hats, underwear, batteries, and cotton fluffing.

Labour Unions

During March, 4 labour unions were registered and 3 employers' unions, bringing the total number of registrations up to 178, i.e., 141 labour unions and 37 employers' unions. There are also two labour federations, the Hong-

kong & Kowloon Trade Union Council and the Hongkong Federation of Trade Unions; 115 labour unions are affiliated to the first, and 44 to the latter.

As a result of more settled conditions in Hongkong, labour disputes have lessened of recent months, only two strikes of any importance having occurred in the first quarter of this year. For the whole of 1948 and the first quarter of 1949 eight strikes took place, involving the loss of 73,230 working hours, the most serious being by taxicab drivers. About 569 men were concerned in this strike, which lasted from the beginning of September 1948 to nearly the end of January 1949. In the end, about 50% of the drivers were reinstated at an increased rate of pay. The Hongkong Federation of Trade Unions assisted the strikers by raising money to buy rice for their families. Below are given some details of the strikes which took place in the Colony over the period 1948/1949 mentioned above:—

	Workers involved	Length of strike
Chemicals: Great China Match Factory	320 women	4 days
<i>Cause:</i> Reduction in wage. Reduction accepted by workers.		
Textiles: Nam Yang Spinning Mill	80 women	1 month
<i>Cause:</i> Reduction in wage. Reduction accepted.		
Distributive: Texaco (China) Oil Company.	300 men	1 month
<i>Cause:</i> Demand for higher wage. Increase in basic wage granted.		
Transport: China Transportation Company.	500 men	1 month
<i>Cause:</i> Objection to new regulations. Regulations cancelled. All new drivers taken on.		
Transport: Star Taxicab Company & others	569 men	4 months
<i>Cause:</i> Demand for new agreement employing increased wages, etc.		
Textiles: Nam Yang Spinning Mill.	305 women	2 weeks
<i>Cause:</i> Demand for 40 days' New Year bonus; annual leave, etc. Granted 30 days' bonus; annual leave to Shanghai; 3 months apprenticeship.		
Textiles: Peninsula Spinning Factory	200 men & women	1 week
<i>Cause:</i> Wrongful dismissal. Worker not taken back.		

Hongkong Commercial Markets

Uneasiness on Commodity Markets

The ill-advised step by Government to outlaw gold transactions and the possession of gold has injected a note of anxiety and concern into all commercial markets in the Colony. As Chinese merchants usually keep, when they find themselves very liquid, gold bars in addition to local and other currency accounts, the official prohibition has turned out to be very inconvenient also from the point of the dealer in ordinary merchandise. A black market which, as customary in this part of the world, is immediately established once an open market is not allowed to operate will, of course, take care of merchants provided that

they have an interest in the gold business, not for effecting imports and exports of bullion themselves, but to keep certain portions of their idle funds in gold, to accept from interior traders gold for cargo and pay gold rather than money to certain outport merchants and transport organisations.

Just as the silver dollar has become one of the principal means of payment in China of today, without which commerce would have come to a virtual standstill, so remains gold the superior medium of calculation and settlement of balances. Trade without gold, either physically or as a means to arrive at a stable basis of values, is these days unthinkable in China.

Hongkong being, next to Shanghai, the major port for China's exports and imports cannot well be expected to carry on without taking recourse to gold in a large number of merchandise transactions.

Nevertheless, the apparently uninformed authorities in London, supposedly acting under instructions from the International Monetary Fund, and compelling Hongkong Government, against its better knowledge and will, to fall in line with the Fund's prescription of gold dealings (i.e. only at prices in accordance with the so-called parity, of US\$35 per oz.), have tried to interfere here with the ordinary pursuit of business and have caused an unnecessary flurry and temporary market disruptions. After a few days of worry and uncertainty about the real intentions and the seriousness of Government here, merchants calmed down and continued "business as usual". Commodity prices which, shortly after the gold ban was out, showed firmness and advanced, in many instances, considerably over the pre-Easter level, later in the week dropped and remained more or less as before. Merchandise values are still computed, if the trade so requires, in ounces or taels of gold, or silver dollars or US\$ etc.

An unwelcome effect of the gold ban was also the hardening of the unofficial US\$ rates, with TT New York moving between 540 to 570. At the same time many dealers in the interior showed doubt in the stability of the HK\$ and converted their funds in Hongkong into gold, silver and other than Hongkong and British exchange. The common traders could not be blamed when they wanted to find behind the gold ban some reason satisfying their curiosity; just to understand why now, after 3½ years' free operation of gold markets in the Colony after the end of war (and entirely official gold business before the war), the British authorities were hitting on the idea that Hongkong had to conform to I.M.F. rules and prescriptions of conduct, appears difficult and cannot be explained to local and interior business men who are not conversant with the mechanism which operates inside the British Treasury. It was then only to be expected that ulterior motives for the gold ban were conjured up which somehow had to do with profiteering schemes of Hongkong Government; or there were reports in all markets about the lack of stability of the HK\$ after free conversion into gold was prohibited. Although an official statement was released here and later a press conference was given the Chinese business community did not freely accept what Government wanted them to believe. Added to the upsetting effects of the gold ban came the reports of spectacular Communist armies' successes and the heavy shelling of British ships on the Yangtse—all these facts combining into a feeling of uneasiness. There is now a latent distrust in the future of the HK\$, with merchants asking each other questions about the stability of the present exchange rate

in terms of sterling and unofficial US\$. Idle funds holders have become somewhat nervous and wish to dispose some if not the larger part of them. There must have been last week some flight from the HK\$ with holders remitting funds abroad and otherwise seeking foreign investment. Some hope was however expressed that the gold ban may be modified and that limited trading would be restored for clients and authorised gold bullion dealers, and that the ban on possession of gold be rescinded altogether.

Piece Goods.

In Shanghai prices were said to have risen, and in Canton they also rose by 50 to 70 cents for grey sheetings and 50 to 60 cents for white shirtings. A banker was in the local market for piece goods, taking about 20,000 pieces, and was overwhelmed by offers from sellers anxious to unload their stocks. Black cloth was in demand by Singapore buyers. Later in the week, prices fell to match the drop in U.S. exchange. Tsin Leung Yuk white cloth, which had fallen to \$38 per piece at the opening of the market, rose to \$41.30, the Canton price being \$36, but dropped again to \$39. Grey sheetings improved from 50 cents to \$1 per piece, and fell again by 50 cents; water duck sold for \$38.50, dragon head at \$42, while in Canton mammoth bird was offered at \$36.20, water duck at \$35.30. Sun Kwong pongee shirting, which had risen, fell again to \$52.50.

Yarn.

Prices of cotton yarn having increased in Shanghai and Canton, the local market followed suit with increases ranging from \$10 to \$20 per bale; globe 20's sold at \$1210 per bale, red vulcan at \$1240; blue vulcan 10's sold at \$955, Tak Lee at \$960; golden city 32's were offered at \$1600, and 40's at \$2120; blue phoenix 40's at \$2120, blue phoenix 40's sold at \$2140, and five sons 42's at \$2080. Not many sales were made at these prices.

A large quantity of yarn, about 1000 cases (310 lbs. each) arrived from Great Britain, which comprised 20's, 32's, 40's and 80's. On a dull market, 20's were offered at \$2.80 per lb., but 32's meeting a seasonal demand fetched \$3.20 to 3.40 per lb.; 42's sold at \$4 and 3.80, and 80's at \$7. per lb.

A shipment of artificial fibre yarns arrived from Japan, the quantity being over 100,000 lbs. These were in request for Siam, Malaya, and Indonesia: 20's were offered at \$3.75 and 32's at \$4 lb.; forward delivery was \$3.50 for 20's and \$3.70 for 32's.

Artificial Silk

About 160,000 yards of artificial silk arrived from Japan, and around 60,000 to 70,000 yards of assorted designs was expected soon. It was feared that the local production would not be able to compete with the Japanese, as the cost was about 30% higher.

Japanese rayon shioze had also arrived. The cargo consisted of 14 designs, 29" wide and 30 yards long, 30 pieces a case; No. 101 was offered at \$1 per yard, No. 120 at \$1.29.

Metals

Heavy cuts by manufacturers abroad further depressed an already unsteady market; galvanized mild steel round bars, for example, which were indentated in February at the price of US\$125 per ton, were now \$115 c.i.f., zinc sheets from \$30 had dropped to \$25.50, tinplates from \$23.50 had fallen to \$21.80. In addition, Italian and French suppliers had made heavy cuts in order to push sales, and the market was also affected by the low prices of Japanese metals, which in some cases were at least 20% lower than other brands. Galvanized mild steel round bars in bundles were unsteady, with falling prices; a certain number of orders, amounting to about 1,400 tons, had been cancelled. Stocks in Hongkong were reported to be about 20,000 tons, and with the uncertainty in North China it was considered wiser not to import more. The fall in prices was from \$7 to \$8 per picul: G2 3/16" was offered at \$38 per picul, G1 1/4" at \$37, and G2 2/32" dropped to \$36. On the other hand, galvanized mild steel sheets were in demand and showed an increase, the market being supported by buyers from Canton and Shanghai, and the restriction on exports being somewhat relaxed: Belgian 3 x 7 ft. rose to \$13.10 from the previous price of \$12.50 per picul, and 3 x 6 ft. fetched \$9.40, with British sheets at about 10 cents less. A large quantity of zinc sheets arrived from Poland, which was as well, as none had recently come from Japan: G4 stood at \$138 per picul, G5 at \$132, G6 at \$130, G7 and G8 rose to \$135, all the prices showing an increase against those previously ruling of \$125 for G4, \$118 for G5 and G6, and \$120 for G7 and G8. Constant arrivals of Japanese brass sheets affected the market; the indent price was \$170 c.i.f. Hongkong, but as the quality was not standardised selling prices ranged from \$160 to \$190 per picul. British brass sheets G8 rose to \$250, while G10 to G12 improved to \$253. Wire nails were in demand but affected by keen competition from the Japanese product; Belgian 1 1/2" to 3" fetched \$51 per picul, Polish nails fell to \$47.50, Czechoslovakian dropped to \$48 for spot and \$47 ex-godown, Hongkong nails still stood at the price of \$50. Japanese sold at \$45. A quantity of over 5,000 bundles (about 300 tons) of Japanese galvanised wire was received from Japan; the indent price of G8 to G20 was \$49 odd c.i.f. Hongkong, but as the quality was inferior and buyers would not take it, this had to be reduced to \$47.50; galvanised wire from Europe stood at \$54 per picul. American tinplates 20 x 28" were offered at \$140 per case, tonnage packing at \$137 per ton; tin waste 10 x 10, 200 lbs. case, with permit, fetched \$83 per case forward delivery and \$90 for spot.

Chemicals

The demand for sulphate of ammonia outran supply. A shipment of 20 tons arrived from Italy and was offered at

\$47 per picul; 1580 bags of red moon brand were also shipped to Hongkong from Singapore and sold at \$3.50, giving a good profit as the indented value was around Straits \$20. The arrivals was awaited shortly of large shipments of golden coin (over 10,000 bags), elephant (over 2,000 bags), and crescent brands. It was further reported that American shipments would soon be arriving, amounting to about 7,100 tons, and that Canton would be receiving about 1,000 tons; a consignment was also expected from Korea. Lower prices were consequently anticipated. Muriate of ammonia was in demand from Canton, and prices rose accordingly: ICI brand increased by about \$15 per ton 1 cwt. bag (Australian), selling at \$560 per ton. Sodium bichromate was in demand for Korea and for local match factories: Australian 560 lbs. sold at \$1.10 per lb., African 500 lbs. sold at \$1, while the American brand was offered at 98 cents. Sulphur black fell in price with little demand: American 2B 200% quality dropping to \$120 and lower qualities to \$100.

Cement

The market for cement was slow, and prices fell as a result of large arrivals: Japanese 100 lb. bags fell to \$4.90 per bag for spot; Formosan cement dropped to \$5.70 (1 cwt. bag); Indochina black and red dragon brands

continued at \$5.60. British "snowcrete" stood at the official price of \$55 per drum of 375 lbs. Danish white cement in 1 cwt. bags remained at \$16 per bag, owing to lack of stock. American red cross brand white cement in 94 lbs. bags was offered at \$18, but without sales.

Cement paint "snowcement" imported by the Green Island Cement Co., was offered at \$58 per steel drum of 112 lbs. (net weight) ex-godown.

Paper

The paper market showed activity, with higher prices ruling. Newsprint in roll 31" rose to 35.5 cents per lb. 43" to 34 cents; newsprint in ream rose to \$19 per ream; tissue papers, owing to lack of stock, rose to \$17.50 for 18 lbs. 34 x 44" quality, while 15 lbs. 25 x 44 rose to \$15.50 per ream. Cellulose increased in price by about \$2 per ream; MG China cap and bond papers also improved.

Glass

Constant arrivals and large stocks kept down the price of glass. Belgian 24 oz. 200 sq. ft. was offered at \$112 and 18 oz also fell to \$65 per case. Swiss glass dropped almost to the indented value. French fell about \$1 and was offered at \$64, but the 100 sq. ft. packing sold at \$69; Japanese glass continued to meet a good market on account of its low price.

Gunny Bags

Prices fell, as buyers from Manila, Singapore and Siam were temporarily out of the market. Old bags, green stripes, fell to \$2.20, middle quality sold for \$1.90 and lowest at \$1.80; new gunnies were quoted at the usual rate, supplies being short. Later in the week, with lack of shipments from India and demands from Indonesia, South Africa and North China which could not be supplied, prices rose. The report that shipments would soon arrive did not help, as the total quantity expected was too small to fill all requirements. New heavy Cees sold at \$3.05 per bag, but further sales could not be effected owing to lack of stock. Old gunnies rose in price to \$2.35.

China Produce

The tung oil market at the beginning of the week continued dull, with no demand from America in spite of anticipations. U.S. requirements amount to at least 50,000 tons a year, whereas their existing stock was reported to be 25,000 tons. Monthly consumption of tung oil has apparently been reduced from 5,000 tons to 3,000 tons by the use of substitutes, which would allow of their carrying on for eight months longer; orders need not, therefore, be placed for a few months more. This depressing realisation, however, was countered to some extent by the raising of restrictions on the import of all

Hongkong Chemical Markets

Prices on the wholesale market, ex godown, in HK\$

Aniline oil	Australia origin, 448 lb. drums	about 67 cts. per lb.
Monsanto Saccharine Granular soluble	1 lb. tin old packing	\$11.20 per tin
Extract of Mimosa	1 cwt. bags Elephant brand	sold \$82.50 per bag
Bleaching powder 70%	130 lb. drums USA origin	" \$1.25 per lb.
Red lead	560 lb. wooden barrels	" \$141 per picul
Red lead	448 lb. drums Australia origin	" \$1.04 per lb.
Phenol crystals	1.5 cwt. bags English	" \$590 per long ton
Amm. chloride	1 cwt. drums, ICI	" \$42 per drum
Amm. Bicarbonate	60 kg. carboy Dutch	" \$1.60 per lb.
Acetic anhydride	1 cwt. drums Belgium	" \$1140 per long ton
Zinc chloride	50 kg. wooden cases Finland	" 60 cts. per lb.
Pot. chlorate	1 cwt. bags ICI, and Austral.	" \$580 per long ton
Amm. chloride	1 cwt. drums	" 26 cents per lb.
Caustic soda flake	700 lbs. drums USA	" \$148 per drum
Caustic soda solid	ICI 50 kg. drums	" \$32 per drum
Calcium carbide	CP 560 lb. drums	" \$2.50 per lb.
Glycerine	110 lb. cases Canada	" \$234 per case
Red amorphous phosphorous	ICI 750 lb. drums	" \$147 per drum
Sod. silicate	150 lb. metal drum USA	" 64 cents per lb.
Pot. chlorate	1 cwt. drums Belgium	" \$1135 per long ton
Zinc chloride	100 kg. bags Crescent	about \$44 per bag
Sod. bicarbonate	100 kg. bags 128/135	sold \$52 per picul
Paraffin wax	100 lb. paper bags USA	" \$22 per picul
Sulphur powder	164 lb. cases	29 cents per lb.
Vaseline, light amber	560 lb. drums Australia	" \$395/403 per picul
Shellac superfine	400 wooden barrels USA	" 95 cents per lb.
Sod. bichromate	100 lb. drums USA	" \$31 per picul
Rosin distilled native	105 lb. bags, Crown brand,	" 78 cent per lb.
Glacial acetic acid		about \$3.00 per lb.
Chromic acid flake		sold \$92 per bag
Quebracho extract		330 bags

"SOLD" means sold at the figure indicated, quantity after which means the quantity sold.

"ABOUT" means neither buying nor selling prices but around these figures.

"ASK" means the sellers ask.

"PAY" means the buyers pay.

Further price indications:—MBT Monsanto 224 lbs. fibre drums, \$1.75, MBT Vanderbilt 200 lbs. \$1.80. MBT Cyanamid 200 lbs. fibre drums \$1.80, Sodium cyanide ICI, 50 kg. drums, \$1.05, Liquid bright gold 28 grs. bottle Hanovia, \$31.20 per bottle.

vegetable oils into Great Britain. In general the market remained dull. Tung oil stood at \$100 per picul, while with drum packing was sold at \$104. Teaseed oil rose to \$115 for a quantity of 300 tons for export, later rising to \$130 per picul; stocks were reported to be about 500 tons in Canton and 1700 tons in Hongkong, and it was anticipated that stocks held in China would be reduced by sales for domestic purposes. Stocks of rapeseed oil were low, the price standing at \$100. Aniseed oil sold at \$385 per picul for a quantity of 5 drums.

Aniseed star stood at \$44 for best quality and \$42 for middle. Cassia whole fetched \$136 for 120 tons; cassia lignea, west river, Kwangtung, 60 catties packing, was offered at \$32 per picul, and loose packing at \$28, but there was little demand. Rosin sold at \$31 per picul, with a steady market. Ramie and white hemp have been more active with larger stocks; the former was offered at \$164 per picul, and the latter at \$153 per picul.

Large shipments of coconut oil from Singapore caused a fall in price, 'A' quality selling for \$102 and 'B' at \$101 per picul, a drop of \$1; Sandakan coconut oil sold at \$100, ex-quay.

The local market for bristles was steady but inactive awaiting supplies from North China; in Szechuan stocks

are being held for despatch when the opportunity arises. The prices in New York were: Tientsin 55 (short) US\$7.20 per lb., Szechuan \$2.90 per lb.; the prices in Hongkong were \$37 per lb. and \$1,950 per case respectively.

Ores

Large shipments of wolfram from Malaya having arrived there was a drop in price, Canton 65% falling to \$300, and Korean to \$295 per picul; however, with the lack of supplies from Canton the market reacted and Canton standard quality 65% rose to \$320 and 80% to \$255 per picul, while Korean standard quality fetched \$315. Tin ingots were at first active, but later declined when American requirements had been filled; Singapore 99.75% was offered at \$560 to \$590, but fell to \$490 per picul, Yunnan tin ingots dropped from \$575 to \$485; Pat Po, Kwangsi, 97% fell from \$580 to \$480 (with export permit) and from \$550 to \$430 (without permit).

A consignment of over 10,000 tons of manganese arrived for re-export to Japan; from 3/4,000 tons are awaiting shipment to that country. The indentured value was \$138 c.i.f. Japan. The Hongkong price had risen to \$110 and \$108 per ton, as again the previous price of \$100, making a total price of \$134 c.i.f., with forward delivery at \$140.

Tea

Shipments of tea from Formosa were greatly reduced; direct exports were being made through Swatow to Malaya. Broken orange pekoe, fine grade, was quoted at \$90 f.o.b. and arrived in Hongkong at \$150; as the present market price was \$130, sales were unprofitable.

Seaweed

A large quantity, about 50 tons, was recently shipped to Japan. Large orders had also been received from Germany, but it was difficult to start trade on a large scale owing to exchange difficulties and also as the prices received from Japan were higher, and supplies were short. Before the war, exports to Germany amounted to 100 tons annually and to Japan to 350 tons.

Rubber Tyres

Re-exports of Japanese tyres and tubes to North China were greatly reduced, and a fall in prices was therefore unavoidable. Yokohama brand fell from \$138 to \$129 and Bridge from \$133 to \$126 per set. About 3,000 sets had arrived from Japan.

Hongkong Imports & Exports of Selected Commodities

FOR THE MONTH OF MARCH, 1949.

Wolfram Ore

Countries	Imports		Exports	
	Quantity	Value	Quantity	Value
China, South	13,504	4,084,802	—	—
Macao	579	159,480	—	—
Sweden	—	—	168	57,960
U. S. A.	—	—	15,402	3,988,726
Total	14,083	4,244,282	15,670	4,046,686

Antimony

China, South	9,315	1,420,000	—	—
Germany	—	—	1,294	244,546
Total	9,315	1,420,000	1,294	244,546

Tin Ingots of Chinese Origin

United Kingdom ..	—	—	2,903	1,488,928
Belgium	—	—	840	445,200
China, South	3,414	1,701,013	—	—
Germany	—	—	249	127,841
Holland	—	—	588	313,320
Macao	375	150,000	—	—
Philippines	—	—	17	9,023
U. S. A.	—	—	1,418	745,677
Total	3,789	1,851,013	6,015	3,129,989

Tin Ingots, other than Chinese

Malaya (Bri.)	168	90,720	—	—
Total	168	90,720	—	—

Bristles

Countries	Imports		Exports	
	Quantity	Value	Quantity	Value
United Kingdom ..	—	—	1,173	2,709,587
Australia	—	—	44	140,968
Malaya (Br.)	10	18,050	—	—
Belgium	294	172,480	20	7,500
China, North	South	3,745	6,523,630	—
France	—	—	50	125,000
Korea, South	—	—	—	—
U. S. A.	—	—	716	1,508,542
Korea, North	—	—	—	—
Total	—	—	4,336	7,851,910
	—	—	2,003	4,491,597

Crude Rubber & Rubber Substitutes (Gutta-percha, Balata etc.)

Malaya (Br.)	16,438	1,417,809	35	2,800
North Borneo	310	16,051	—	—
China, North	—	—	9,544	842,961
" Middle	—	—	53	4,725
" South	—	—	1,982	168,839
Fr. I. China	857	42,100	—	—
Korea, South	—	—	8,904	812,190
Macao	113	10,170	149	12,730
Neth. E. Indies	2,012	172,098	—	—
Siam	38	3,750	—	—
Total	—	—	19,768	1,661,978
	—	—	20,667	1,844,245

Tinned plates (tinned sheets)

United Kingdom ..	2,239	166,970	—	—
China, North	—	—	195	17,521
" Middle	—	—	656	45,055
" South	—	—	2,122	176,721
Italy	700	35,760	—	—
Korea, South	—	—	150	9,900
Macao	—	—	429	25,239
Siam	—	—	904	72,299
U. S. A.	28,821	1,645,067	—	—
Total	—	—	31,760	1,847,797
	—	—	4,456	346,735

Wood Oil in Drums**Tea Seed Oil**

Countries	Imports				Countries	Imports			
	Quantity	Value	Quantity	Value		Quantity	Value	Quantity	Value
United Kingdom	—	—	1,176	155,444	United Kingdom	—	—	37,771	6,237,574
Australia	—	—	1,816	226,047	China, North	1,008	178,320	—	—
India	—	—	504	65,520	" Middle	1,447	203,968	—	—
Malaya (Br.)	—	—	90	14,112	" South	9,399	1,211,385	—	—
New Zealand	—	—	168	20,496	Macao	1,116	158,470	—	—
North Borneo	—	—	22	3,235	Total	12,970	1,752,143	37,771	6,237,574
South Africa	—	—	588	77,952					
China, South	32,042	3,726,716	—	—					
France	—	—	1,680	231,500					
Germany	—	—	1,941	236,050					
Holland	—	—	157	16,458					
Macao	356	36,496	—	—					
Siam	—	—	46	8,176					
Spain	—	—	614	78,010					
Sweden	—	—	856	102,696					
Total	32,398	3,763,212	9,638	1,235,696					

Wood Oil in Bulk

United Kingdom	—	—	17,690	2,154,568
China, South	11,561	1,370,329	—	—
Germany	—	—	5,040	655,200
Total	11,561	1,370,329	22,730	2,809,768

Other Oil from Seeds, Nuts & Kernels

Malaya (Br.)	252	27,720	—	—
China, South	3,613	392,732	—	—
Macao	93	11,643	43	2,418
Total	3,958	432,095	43	2,418

Coco-nut (copra) oil, refined

Malaya (Br.)	2,433	281,361	—	—
North Borneo	393	43,107	—	—
China, North	—	—	237	32,146
" Middle	—	—	1,583	176,796
" South	—	—	11	1,500
Korea, South	—	—	598	65,223
Macao	—	—	117	12,450
Neth. E. Indies	84	15,760	—	—
Total	2,910	340,228	2,546	288,115

Linseed Oil

India	452	38,501	—	—
China, Middle	—	—	3	297
Macao	—	—	46	8,150
Siam	660	61,155	—	—
Total	1,112	144,656	49	8,447

Groundnut (peanut) oil

Malaya (Br.)	71	8,440	159	27,060
China, North	136	19,040	—	—
" Middle	257	42,170	—	—
" South	93	13,020	—	—
Korea, South	15	2,100	—	—
Macao	1,935	284,181	—	—
Korea, North	3,967	547,304	—	—
Total	6,474	916,255	159	27,060

Sesamum oil

Australia	—	—	2	354
Canada	—	—	4	824
Malaya (Br.)	—	—	90	18,292
New Zealand	—	—	3	720
C. America	—	—	1	115
Macao	14	2,800	4	480
Philippines	—	—	3	620
U. S. A.	—	—	27	5,922
Total	14	2,800	134	27,327

Aniseed Oil

Countries	Exports			
	Imports	Quantity	Value	Exports
United Kingdom	—	—	93	39,474
Australia	—	—	59	25,820
Canada	—	—	16	7,077
India	—	—	4	1,610
New Zealand	—	—	4	1,678
South Africa	—	—	3	1,386
China, South	464	187,924	—	—
France	—	—	192	88,823
Germany	—	—	78	33,751
Holland	—	—	19	8,410
Macao	15	6,000	—	3,1448
Philippines	—	—	1	793
Siam	—	—	855	372,972
U. S. A.	—	—	47	45,647
Total	479	193,924	1,327	583,242

Cassia Oil

United Kingdom	—	—	6	6,300
Australia	—	—	1	555
India	—	—	6	3,095
China, South	12	2,020	—	—
France	—	—	15	15,900
Macao	12	9,538	—	—
U. S. A.	—	—	47	45,647
Total	24	11,558	75	71,497

IMPORTS & EXPORTS OF FAR EASTERN COUNTRIES IN 1947

(in millions of US\$)

Imports Exports

Malaya	642.9	608.8
China	649.5	230.6
Japan	526.1	173.6
Hongkong	390.4	306.5
Philippines	511.4	265.5
Indonesia	285.3	128.8
Indochina	127.2	56.2
Siam	112.6	95.3

Total trade values of Far Eastern countries in 1947 (in millions of US\$) were as follows:—

Malaya 1251.7; China 880.1; Philippines 776.9; Japan 699.7; Hongkong 696.9; Indonesia 414.1; Siam 207.9; and Indochina 183.4.

TRADE BETWEEN CHINA, HONG-KONG, JAPAN, NETHERLANDS INDIES, PHILIPPINES, MALAYA AND THE U.S.A.
Exports from U. S. to:-

	1936-38	Jan.-Dec.	
	annual	average 1947	1948
		(in thousands of US\$)	
China	43,752	353,498	240,155
Aid and relief		130,704	48,265
Hongkong	16,701	89,479	48,165
Japan	244,188	414,454	323,333
Aid and relief		357,011	254,387
Netherlands Indies ...	22,104	103,591	92,135
Republic of Philippines	77,280	439,519	467,746
Imports into U. S. from:-			
British Malaya	174,384	284,112	269,704
China	75,012	116,705	120,533
Japan	167,568	35,403	62,512
Netherlands Indies ...	84,588	33,604	75,535
Republic of Philippines	107,328	161,725	227,555

Reports from Tientsin

Barter Trade

An agreement was signed on 15th Feb. between the Central-Plain Trade Office and the North China Trade Office according to which the former is to sell 2 million catties of tobacco leaves and 1 million catties of cotton to the latter in exchange for 44,000 bundles of fine cotton yarn, 1000 drums of petrol (340,000 catties) and 27,300 pieces of white cloth. This barter was completed by middle of April. When the tobacco leaves arrived in Peiping and Tientsin, merchants were very active in purchasing.

The North China Trade Office ordered another 4 million catties of tobacco leaves from the Central-Plain Trade Office. The Dept. of Labour & Commerce of North-Eastern Area Administrative Council (Manchuria) also ordered 5-8 million catties tobacco. North China still requires 6-10 million catties of cotton for factories in Tientsin and other places.

Import and Export

The majority of imported commodities are mainly newsprint, machinery and parts, medicines, dyestuffs, tanning extracts, sugar, gunny bags and radio and parts. During the first ten days of April, the total value amounted to People's Bank \$96,832,762. Within the same period of time, the main exports were soyabean oil, rugs, wool, peanut oil, bean-cakes, camel hair, furs, straws for straw hats, medicine and other local products, total value of which was \$169,621,057. \$72,768,295 was the excess of exports. In the same period, imports into North

U. S. Trade

	1936-38 annual average	January-December 1947	1948 (in thousands of US\$)
Exports, incl. reexports	2,966,532	15,340,287	12,614,237
Cash-purchase	2,966,532	13,681,754	11,056,327
Foreign aid and relief		1,658,533	1,557,910
Greek-Turkish aid		27,147	91,656
Interim aid		27,467	295,042
Foreign aid		167,901	53,068
Private relief		112,887	119,883
Economic Coop. Adm.			84,883
Internat'l Ref. Org.			1,933
Civilian supply			9,764
Imports for consumption		910,534	900,968
Exports, U. S. Merchandise	2,925,024	15,162,352	12,494,000
General imports	2,488,896	5,733,369	7,070,344
	2,461,152	5,643,355	7,038,344

China from other liberated areas were mainly sea products, timber, leather, metals etc., exports from North China were mainly foodstuffs, cotton yarn, cotton cloth, mineral oils, etc. Other active domestic trade was carried on with Kuomintang controlled areas.

The American S/S "Pacific Transport" and the British S/S "Ning Hai" left Tientsin on the 10th and 11th April respectively, carrying rugs, straw hats, medicines, local wines, etc. amounting to over 2,000 metric piculs (50 kgs.) The S/S "Yuen Ho" of the Tung Wo Steam Co. and the M/V "Pei Loong" of the Northern Navigation Co. had made their clearances on the 11th April, and left for Chefoo and Lung-kau. Many foreign owned ships are now regularly calling on Tientsin and other North China ports.

Registration Regulations

The Dept. of Labour and Commerce of the Tientsin Municipal Govt. announced Registration Regulations for newly formed factories and Companies: All concerns subject to these regulations should send in their application forms, obtained from either the Commercial or the Industrial Association, as the case may be, to Branches of the Dept. of Labour & Commerce for approval. But before so doing, certain trades must first obtain permission from (A) Police Dept., such as entertainment enterprises, boarding houses, restaurants, broker agencies, second-hand stores, electric goods stores, motor transportation Companies, uniform tailors, printers, photo studios, (B) Sanitary Dept., such as dispensaries, bath houses, restaurants, dairy farms, aerated works, butcheries, fish markets, groceries, bars, entertainment places, sugar plants, fruit and cake shops, noodle works, oil factories, hotels, canned food manufacturers, (C) Public Works Dept., such as entertainment enterprises, boarding houses, bath houses, transportation Companies, chemical works, machinery factories, leather and rubber factories, (D) Finance Dept., such as goldsmiths, money changers, insurance firms, (E) Marine Dept., such as steamship Companies, navigation agents, sworn measurers, etc. (F) Foreign Trade Dept., such as importers and exporters, and (G)

Foreign Affairs Dept., including all foreign-owned business in Tientsin.

Formation of Foreign Exchange Office

The Bank of China held a meeting with members of the appointed banks dealing in foreign exchange business. Representatives from Foreign Trade Dept. and Dept. of Foreign Affairs also attended. At this meeting, (on April 16) the Shanghai Commercial & Saving Bank was elected as vice chairman of the Foreign Exchange Office. There are certain points to be noted:

1. All foreign exchange deals must first be registered.
2. Time limits for export credits are varied: Hongkong—50 days, Malaya—70 days and other places—not exceeding 100 days.
3. Suitable settlement of Debts which occurred before the liberation will be decided by the Bank of China, based upon reports from appointed banks.
4. Whether or not the deposits of foreign currency in appointed banks can be considered as foreign exchange, has yet to be decided by the authorities concerned.

The Foreign Exchange Office is under control of the Bank of China. It has one director, (the Business Manager of the Bank of China), two asst. directors, one being Liu Chen-fu, Executive of Administrative Dept. of Bank of China, and the other a member of the Shanghai Bank. All appointed banks are members of the Office.

All transactions in foreign exchange should be introduced by the members and not otherwise. There is only one kind of official receipt for foreign exchange transaction which is to be signed by Bank of China. Accounts will be closed at the end of every month, 90% of the commission is paid to members and 10% retained by the Office.

Foreign Exchange Regulations

1. These regulations are based on Regulation No. 17 of the Temporary Regulations for Foreign Exchange in North China.
2. Banking Companies, who have branches or agents abroad and conform to all regulations and laws of the People's Govt. may deal in foreign exchange after applying to the Bank of China and obtaining permission from the People's Bank.
3. Banking Companies should fill in the

application forms furnished by the Bank of China. 4. Appointed banks are to introduce purchases and sales of foreign exchange for customers, and act as guarantors to both buyers and sellers.

5. Appointed banks, being approved by the Bank of China, may issue letters of credit and arrange for packing credits. All foreign exchange purchased must be surrendered to the Bank of China at the official rate of the day, or, if approved by the Bank of China, may be sold to the Foreign Exchange Office within a time limit. 6. Time limit for letters of credit may vary according to distances and communication conditions, but in any case must not exceed 100 days. 7. The official exchange rate is based upon the suggestions and market reports of appointed banks, investigated by the Bank of China, and decided by the People's Bank. 8. Commission charged by Foreign Exchange Office is 2%, paid by both buyers and sellers (90% of which goes to introducers and the remaining 10% to the Office).

9. Exporters should note that all foreign currency notes or drafts must be deposited with the Bank of China, who in turn will issue the necessary deposit receipts. Exporters will hand in these receipts to the Foreign Office and settle their accounts. 10. Importers must first buy the necessary Drafts

with import licences obtained from the Foreign Exchange Office, apply to the Bank of China before they can import goods from foreign countries. At arrival of goods, importers must report to Foreign Trade Dept. 11. Municipal Govt. approval is necessary when buying foreign exchange for remittance to a family residing in a foreign country. Permit from Foreign Trade Dept. is necessary when buying foreign exchange for office expenditure of branches in foreign countries, or as payment of export commission, transportation charges, insurance fees etc.; permit from North China People's Govt. is necessary when buying foreign exchange for expenditure for studying or travelling abroad. In any case, foreign drafts may be bought at Foreign Exchange only when approved by the Bank of China. 12. The amount of foreign exchange allowed for family or office expenditure, travelling expenses etc., will be estimated by the Bank of China. 13. Visitors from foreign countries are required to hand over all foreign currency to the Exchange Office of the Bank of China in return for an official receipt, with which to open a deposit account with the Bank of China. On leaving the country, balance of the Bank account may be drawn from the Bank in foreign exchange just as it was originally handed in by foreign visitors.

North China Financial & Commercial Markets

Commodity prices in Tientsin and Peiping show a declining tendency with foodstuff and essential commodity stocks increasing from week to week. Produce from the country is arriving in large lots and regularly. Local consumption is high and stocks for export to overseas markets have accumulated.

Cost of living is slightly decreasing in terms of People's Bank dollars but an inflationary trend remains as long as the war operations in the south continue and higher price in May or June may be expected. All public utilities have decreased their rates which had a beneficial effect on the commodity markets.

Before Easter the official exchange rate as announced by the Bank of China (the institute authorised by the People's Bank to deal in foreign exchange) was PB\$110 per HK\$1 but has since been advanced to PB\$115. The unofficial rate is usually 10 to 15% higher than the official rate. The US\$ official rate stands now at PB\$650 and the pound sterling is quoted at PB\$1840. Accordingly, the official rates in Tientsin quote HK\$ at a cross of 566 to the US\$, and sterling at a cross of US\$2.83. These cross rates are also quoted on the unofficial market. The scrip of the Central Bank of China is not dealt in any longer; the last obtainable unofficial rate was between 800 and 900 "gold" yuan per one PB\$.

The price of rice is indicative of living costs more than price indices. On the wholesale market one catty (of 1.1

lbs) of white rice cost last week PB\$10 to 15 (according to quality). In terms of HK\$ one catty (1.1 lbs) therefore cost about 11 cents or at the unofficial exchange rate, about 13 cents. In Hongkong however, one catty (1.33 lbs) costs 60 cents, for Government rationed rice, and up to 80 cents on the open market. The local price for 1.1 lbs of rationed is 50 cents; the Tientsin price is 74 to 78% cheaper.

Following are Tientsin commodity market prices of April 16, 1949 (in People's Bank dollars):

Flour (Red God brand)	1200	per bag
Bean (Green) (white)	14	" catty
(red)	16	" "
Peanut oil	24	" "
Soyabean oil	67	" "
Piece goods (Green sunlight brand) A	59	" "
(Flying horse brand) A	4050	" piece
(Hsi Y ueh brand) B	4000	" "
(Bleaching white No. 40 special fine)	3900	" "
(Pacific blue brand)	5000	" "
Cotton yarn (Horse brand 10's)	6000	" "
(Fairy brand 20's)	78500	" "
(Horse brand 32's)	123500	" "
	167500	" "

Towels (Three flowers brand)	670	" dozen
Monsanto Saccharine	5000	bottle
Gunny bags	95	catty
Sugar No. 24	90	" "
Taiwan sugar	78	" "
Fertiliser (Wing Lee brand)	80000	ton
Kerosene (Asiac and Socony brand)	30300	drum
Matches (Dawn brand)	4200	gross
Rubber Tyres (Victory brand)	1990	each
Inside Tubes (Three rounds brand)	440	" "
Toilet soap (four in one brand)	5900	gross
Tooth Paste (Ku Fun brand)	4500	" "
Peanut	2650	picul
Green Castles Cigarettes	1400	carton
Sulphur blue (blue tiger brand)	57500	drum
Bleaching powder concentrated	30500	(130 lbs.)
Wire (No. 20)	13000	picul
Nails	12500	" "
5mm British metal plate	115000	ton
Aspirin powder	620	lb.
Iodine tablet	2450	" "
Penicillin (200,000 units)	600	tube
Vaseline	46	lb.
No. 18 black electric wire	1050	coil
Electric bulb 40 watts, imported	130	each
Newspaper, locally made	550	ream
Sulphuric acid 66%	8000	case
Nitric acid 42%	150	lb.
Alcohol 95%	35000	drum (53 gallons)

PEOPLE'S LIBERATION ARMY OF CHINA

The Commander-in-chief of the Army is Chu Teh under whose command operate the various army groups in the Northeast (Manchuria), North China, West China, Central China and the guerilla corps in South China. The present offensive is conducted by four field army groups, an army at the Taiyuan front, and the guerilla units in South China. The commanding generals of the army groups now in action are:—Peng Teh-huai, Chang Tsung-hsun and Chao Shao-shan of the First Field Army; Liu Po-cheng, Teng Hsiao-ping and Chang Chi-chun of the Second Field Army; Chen Yi, Jao Shu-shih, Su Yu and Tan Chen-lin of the Third Field Army; Lin Pao and Lo Jung-huan of the Fourth Field Army; Hsu Hsang-chien, Chou Shih-te and Lo Jui-ching of the People's Liberation Army at the Taiyuan front.

The Mining Industry of Formosa

(From our Formosan Correspondent)

More than one third of the total area of the island of Formosa is covered by mountains with 48 peaks exceeding 10,000 feet. More than 800 kinds of minerals have been discovered but due to natural obstacles most of them are still left unmined. The general distribution of minerals in Formosa is divided into three districts: the region of the Central Ranges; the Eastern region; and the region of the Lower Ranges. The first two regions consist of metallic minerals, and the third region contains the oil basin. The minerals which have been excavated are gold, silver, copper, mercury, sand-iron, nickel, coal, petroleum, and special stones, among which the most important ones are gold, sand-gold, copper, coal, and petroleum. The total number of mines at present are 914, occupying an area of more than 1,104,000 square kilometres.

According to the statistics of the year 1937, the annual mineral production in Formosa, in terms of Japanese Yen then are as follows (in thousands of Yen):—Coal, 51,014; Gold, silver, and copper minerals, 17,214; Gold, 4,451; Gold and Silver Minerals, 2,199; Gold and Silver Precipitates, 2,708; Gasoline, 291; Petroleum, 456; Silver Precipitates, 469; Other Minerals, 4,884.

Total value in 1937 Japanese Yen 27,998,000.

Coal Mining.

This is the most important mining industry in Formosa; at one time producing more than $\frac{1}{2}$ of total Formosan mining. The coal fields are scattered in northern Formosa around Keelung and Taipak, and the Sintek districts. At the beginning of the last war Japanese had developed the coal mining industry in Formosa so extensively that more than 3,000,000 tons had been mined annually, which were mostly shipped to Japan Proper, Korea, China, and the South Seas.

(1) The Characteristics of Coal Mines in Formosa:—The coal layers in Formosa are all from 1 to 4 feet thick, consisting mostly of soft coals alloying with bituminous or lignite qualities. Formosan coal mines are mostly very small in scale, and scattered all over the lower ranges of the mountainous region in Northern Formosa, which are accessible from the main railway line. There is no mining town in Formosa; the coal mines are mostly surrounded by a number of farming villages, in which the farmers are at the same time the miners.

(2) The Formosan Coal Mining after the War:—Considerably damaged were the coal mines during the war, as however, the mines are very small and consist of many small units the damage was largely due to lack of repair materials and negligence. During the last two years of the war, millions of tons of coal mined were left in the coal-yards because of lack of transportation. This stock became one of the main spoils for the post-war Chinese carpetbaggers. Immediately after they came to Formosa, in addition to taking-over of the coal mines, they set

strict control on shipping Formosan coal out of Formosa. A price of about 1% of the black market-price of coal in Shanghai was announced by the Kuomintang Government to buy up all the privately held coal in Formosa. Thus the Chinese bureaucratic capitalists made a tremendous fortune overnight. The Formosan coal miners repeatedly protested, but the KMT paid no attention to them.

The former Japanese coal mining enterprises taken over by the Chinese consist of the former Japanese Kee-lung, Engkian, Chitseng, Haisan, Tang-kok, Samtek, and Toakhe coal-mining companies, forming a branch company of the Taiwan Provincial Industrial and Mining Company with a total "paid-up" capital of Taiwan Yen 122,766,700, in the year 1947. This Company has 47 coal mines producing coal, coke, tar, gas, etc.

Petroleum

The distribution of petroleum in Formosa covers almost $\frac{1}{2}$ of the total territory. However, due to lack of technology and limitation of capital deposits which had been discovered are only East Sintek, East Biaulek, East Kagi, and East Sinin. In 1940 there were altogether 23 units and annual productions were as follows (in Japanese Yen):—1940: 384,860; 1941: 312,159; 1942: 395,897.

Production in "chio" for 1927 and 1946: 126,000 and 15,000 respectively. (1 "chio" equals 26.5 U.S. gallons.)

The production of petroleum in Formosa dropped sharply in 1946 under the Chinese rule, and there was conspicuous deterioration compared to pre-war conditions.

Petroleum mining was formerly monopolized by the Japanese through the Nippon Petroleum Co. with 12 mining units in the island and a total capital of Yen 45,685,290. After the taking-over by the Chinese this Company was incorporated as the China Petroleum Co. owned by the Chinese Natural Resources Commission (KMT government).

Gold and Copper Mining

Gold mines and sand-gold so far discovered and exploited are limited to districts in the Northern part of Formosa, in Kimkoecho and Suihong districts. The Kimkoecho mines had been exploited by Japanese under the Nippon Mining Company. It produces concentrated ores of gold, silver, and copper, by refining the original ores containing 0.002% gold, 0.001% silver, and 1-3% copper. The concentration plant built by the Nippon Mining Company is a large-scale modern establishment, with other two former similar Japanese units which were taken-over by the Chinese carpetbaggers valued at Yen 45,310,621 (pre-war value). The Chinese Natural Resources Commission now "own" three mines. Besides the above mentioned concentrated ore production, this plant used to produce more than 300 tons of precipitated copper a month during the refining process.

In Suihong district pure gold has been produced by many small local native firms. The pure gold produced in Formosa in the year 1943 was more than 1,500 kilograms excluding the sand-gold recovered on the Northern coast in the River Takkiri covering a great area of the river-bed in its upper and middle-streams. Sand-gold has also been discovered in the River Keelung.

Sulfur Mining

The volcano ranges run along the lower ranges in Formosa, therefore sulfur as well as natural gases can be located in many places on the Island. Up to the present sulfur mining has been limited to the triangular northern corner of Keelung, Taipak, and Tamsui, producing about 1,000 tons in the year 1935. The production of sulfur both in the past and present has been small although there are many places left undeveloped. Sulfur is extensively used by many industrial plants, especially in the manufacture of sulfuric acid, matches, explosives, etc. Formosa needs more than 200,000 tons of ammonium sulfate fertilizer a year and if she is going to be self-sufficient, a great amount of sulfuric acid has to be produced to meet this demand, which necessitates production of a large amount of sulfur locally.

The Quarries

Granite and limestone are found in many places in Formosa, from which several cement factories were built by the Japanese in the past. These ex-Japanese companies were incorporated likewise by the mainland-Chinese to form the Taiwan Cement Company, jointly owned by the Chinese Natural Resources Commission and the Taiwan Provincial Government on a 60-40% basis. The post-war reconstruction in Formosa needs more than 300,000 tons of cement annually. However the present production capacity of the Taiwan Cement Company has only reached 150,000 tons a year.

Natural Gases

Due to the presence of volcanoes in Formosa, natural gases can be found in many places among the mountains in the lower ranges. They are not only a source of cheap fuels, but gasoline can be scrubbed and carbon-black can also be manufactured from them.

FORMOSA'S AGRICULTURAL AND INDUSTRIAL FOUNDATION

In the next issue of the Far Eastern Economic Review a survey of Formosa's agricultural and industrial production will be published which will deal with the position as it is found today and with the problems of reconstruction facing the people of Formosa in the future.

This survey should prove very helpful to business men who are interested in establishing contacts with Formosa or to expand their present interests so as to serve, for mutual benefit, the economy of Formosa and that of their own countries.

CHINA WOOD OIL (TUNG OIL)

By Lo Chen-chuan & Kao Ping-shu

TUNG OIL PRODUCTION IN CHINA

Tung is the Chinese word for heart, applicable because of the large heart-shaped leaf of the mature tree. Tung was first mentioned in connection with paint in the "Book of Poetry", a collection of Chinese folk songs edited by Confucius over 24 centuries ago. The trees are handsome, very hardy, and fast-growing, about twenty feet tall, and characterized in spring by a profusion of clusters of pale pink blossoms. The fruit appears as a small green ball, almost immediately after the flowering period, and, when mature in September or October, is oval, two to three inches in diameter, and covered with a hard dark brown husk. Each fruit contains three to seven hard brown seeds bearing the white meat from which tung oil is pressed. Tung trees are sub-tropical, and consequently peculiar to southern China. They thrive on very poor rocky soil, in regions between 26° to 34° north latitude and in hilly country up to 2,500 feet in altitude, particularly in the upper reaches of the Yangtze valley in China. Good drainage, adequate rainfall and a sufficiently cold winter to afford the trees a frost-free resting season, complete the climatic specifications. Tung trees are an excellent complement to the minute system of agriculture in China, as they flourish on hillsides and in mountainous areas.

Tung oil, or China wood oil, is really extracted from different species of the same family, Euphorbiaceae. The former is from the Aleurites Fordii, regarded as the harder and more important of the two species, usually known as the tung tree,—growing in the upper valley of the Yangtze River, and yielding an excellent quality oil in large quantity. The growth of this species is more widespread. The wood oil is derived from the species of Aleurites Montana, known as the wood oil tree, or "Mou-Yu"; a popular term in Canton and Hongkong,—growing in southern China, particularly in the Kwangsi, Kwangtung and Fukien provinces. The Montana blossoms comparatively earlier and the tree is considerably larger when it is mature than the other species; in comparison, it has a slower growth but a longer productive life span. Kwangsi province has attempted at various times to suppress the cultivation of the unsatisfactory wood oil trees, and replaced them with more favorable tung trees.

Tung oil is a thick, semi-solid substance, varying from pale yellow to dark brown. The fruit of the tung tree ripens in September or October, depending upon the climate of the locality. Chinese farmers generally knock off the fruit prematurely, not allowing it to fall naturally to the ground at full maturity, thus lessening the amount of labour required for weeding the grass, permitting free collection of fallen seeds, and reducing loss through thievery. Manufacture of the oil involves three operations, as follows: The method employed by local producers in removing the husks is crude although effective. First the nuts are stirred in a large iron pan over a wood fire until parched. This causes the husks to open, permitting free extraction of the seeds. Another method employed for seed removal is to gather the nuts prior to full maturity and cover them with straw or grass, causing fermentation in the thin fleshy part of the fruit, and thus allowing the nuts to be easily extracted. The latter method is more time-consuming, but it conserves labour and fuel. The seeds on extraction from the husks, are ground into a fine meal in stone mortars.

These mortars are rather large, holding several bushels of nuts and resembling a stone trough, made of several sections, and about three feet in diameter. When the nuts have been placed in the mortar, they are ground by a heavy stone roller propelled by ox or horse. Properly ground, the meal is collected in an old-fashioned press and compressed with wedges, to increase the effect of the heavy stone piles on top of the press. The meal is usually heated or steamed before insertion into the press to facilitate extraction of the oil. Sun-curing the kernels before crushing will produce a lighter oil, while subjection to a high artificial heat will make it much darker. The oil on being removed from the press is sieved or strained through a series of coarse grass cloth or silk-filters. Finally it is packed in baskets or crates woven of bamboo, lined with grass cloth or paper, and well sealed.

Distribution of Producing Areas:— Tung trees are abundant and grow luxuriantly in China, especially in the upper reaches of the Yangtze valley and the adjacent areas. This area involves five major contiguous geographic regions, the Szechwan Basin, the South Yangtze Hills, the Central mountains, the southwestern plateaux, and the southern coastal hill region, and covers no less than fourteen provinces. It includes an area of about 687,000 square miles.

The best location for tung tree plantation in China is Szechwan. The tung oil tree regions in Szechwan may be divided into three main sections, according to natural topography, namely, Eastern, Southern and Northern Szechwan. Eastern Szechwan covers an area of the watersheds of Yangtze and Wu Rivers. Southern Szechwan covers an area of the watersheds of Chin-Sha, the Ta Tu and the lower part of Ming Rivers. Northern Szechwan covers an area of the watersheds of the Chu & Chia-Ling Rivers. Szechwan produces nearly one-third of China's tung oil, which is collected at Fuchow and Hochuan, and then shipped to the local trading ports, like Chungking, and Wanhsien, where the oil is refined and shipped eastward through the Yangtze River to Hankow and Shanghai.

Hunan ranks second in tung oil production. Located in the heart of China, it enjoys the best transportation facilities, lakes and rivers linking it to Chungking on the north, railways to the south and east, and highways to the west. Important producing areas are in the northwest extending along the Yuen River and upper course of the Siang River; local trading ports are Changteh & Changsha, and thence the oil is shipped to Hankow by way of the Tungting Lake.

Kwangsi is the third important oil producing province. Tung trees are found mainly in the southwestern section; Nanning, Liu-chow and Wuchow are the local trading ports. The oil of Kwangsi is sold through brokers and shipped to Hongkong. Probably the first province to enforce widespread compulsory plantation of tung trees was Kwangsi. As a means of encouragement to the people, the Provincial Afforestation Station sponsored the planting of 43,424 tung trees. In 1936, Regulations Governing the Plantation of Tung Trees were promulgated by the Provincial Government, which provides that each one hundred families be required to sow at least one hundred catties of tung seeds. Under such compulsory plantation, no less than 85,269,746 tung trees were grown in the

early stage of the recent war against Japan, and this furthered the tung oil production in the province.

Hueh ranks fourth in tung oil production. The output of this province is collected at Ichang and Laohokow, which in turn are linked with Hankow, the leading tung oil market of central China. The fifth principal producing province is Chekiang, with producing areas located along the valley of the Chien-Tang River, and Hanchow and Wenchow as the local collecting centers. The tung oil trade in Chekiang was most active during 1939, due to the facilities afforded by coastal shipping connections.

In addition to the five leading provinces, the mountainous province of Kweichow is rather important also. Motor truck transportation in wartime is responsible. The tung tree district in Shensi is located in the southern portion of the Province, in sections of the region on both sides of the Han River up to the Tsinling Mountains. The great Tsinling Mountain Range divides China into two distinct climatic areas. In the northern part, no tung trees are grown because of low temperatures or other adverse weather conditions. The oil produced in this province is shipped by junk down the Han River to Hankow. The province of Anhwei, although of small consequence as a tung oil area, ships practically all of its production to collecting and marketing centers in Chekiang, thus amplifying somewhat the stocks available for the leaching industrial cities of Chekiang province. Only a small share of the output of this eastern region is contributed to the Chinese export trade in tung oil. Kiangsi province produces a rather small percentage of tung oil.

The tung oil district in Kwangtung is located along the North River and the Upper West River, chiefly along the latter. The output of this province is collected at Canton and shipped to Hongkong. During the war, Kwangtung Province was one of the few provinces planting new tung trees. Tung trees are reported in scattered localities in Fukien particularly in the vicinity of Changchow, but these growths are not exploited to any degree, and the Province has not attained a significant position in either local or export trade of tung oil. Yunnan although possessing a fair number of tung trees in the heavily forested areas to the northeast and northwest, has not become an important source of supply because of the scattered growths and the difficulties involved in transporting the oil to the export centers. Yunnan is without seaport.

Present Producing Situation:— China reigns supreme as a producer of tung oil. In fact, as late as 1939, China was the sole commercial producer and monopolized world trade in this oil. China's superiority in this field was due to southeastern Asia being the native home of the tung plant and its innumerable wild trees were easily accessible; the availability of tung oil, as a result of the negligence of other countries in discovering its value until very recently; and the plentiful supply and comparatively cheap labor in China. Prior to 1939, China had a monopoly in the production of tung oil, because no other country produced it. It may be assumed that for the five-year period to 1938, the annual production varied rather widely but averaged 136,000,000 pounds, of which 100,000,000 pounds were exported and 36,000,000 pounds were for domestic

consumption. After the outbreak of Sino-Japanese hostilities, tung oil production dropped considerably. During the war period in 1938, the Chinese government organized a state monopoly on four articles of export, tung oil being one of the four. Enforcement of the monopoly system involved the concentration of purchasing, transportation and distribution of the tung oil in the hands of government, denying those activities to private individuals or firms, and the responsibility for this execution was placed by the government on the administration of the Foreign Trade Commission. The monopoly stipulated that, when oil was brought to the collection centers, where the Foreign Trade Commission has offices or appointed purchasing agencies, it had to be sold to them within a certain length of time, or otherwise forced sales would be effected. Since Chinese government control of the oil and the prevailing low price caused a general decline in interest in the planting of new trees or in the proper care, already grown trees were cut for firewood in some districts or for the planting of other food crops. During the war, the average production declined to 120,000,000 pounds, of which 40,000,000 pounds were exported, and 80,000,000 pounds for domestic consumption.

The Chinese tung oil industrialists planned raising this average production to 180,000,000 pounds during the first five years in post-war China, of which 120,000,000 pounds were to be for export, and 60,000,000 pounds for domestic consumption.

The price of tung oil has not kept pace with that of other agricultural products, although there has been some increase. Before the war one picul of tung oil was equal in value to four piculs of rice and two piculs of edible oil; while today one picul of tung is equal in value to two piculs of rice and one picul of edible oil. The present low price of tung oil in China makes it decidedly unprofitable for the farmer to plant new trees, or to cultivate them.

In China the cost of producing tung nuts is very high, and their production is unprofitable to the farmer. This is due to the small number of the trees on each farm; the widely scattered plantings within a given area; the planting of most trees on hilly land rather than on the plains or more fertile land; the resulting low yields from each tree; and the great distance from producers to mills. Most of the tung oil in China is produced in the rough hilly areas of the west and southwest where transportation of the oil to the collecting centers is difficult and expensive. In hilly regions, the oil is transported by coolies. Adding the handling and river freight charges on steamboat-propelled junks to the collecting centers or exporting ports increases the cost considerably. In addition to the high cost of transportation, the loss of oil from leakage and adulteration occurring between the producing area and the export center, mounts to 40 to 60 percent of the export value of the oil.

Domestic Market and Exporting Centers: Tung oil has been used for centuries in China in the manufacture of tools and furniture and, in a mixture with lime and chopped hemp, for calking junks and small boats. It was used also as a leather dressing and as an ingredient in the manufacture of soap. Burned to a soot, tung oil made a

finely divided carbon which the Chinese employed in the production of India ink. Further use was found for this oil in the water-proofing of papers, shoes, umbrellas, silk, pongees, oilcloth, and other materials.

Domestic outlets were formerly the primary concern in the trade. Prior to 1914, consumption of tung oil in China was estimated to be at least double the amount exported. Since World War I, foreign trade in this commodity has developed rapidly with the result of a more extensive exploitation of the trees. This changed the distributive organization of this trade, and placed the domestic market in a position of secondary importance. Approximately 40 percent of tung oil produced in China is consumed by domestic industries, and the remainder is exported, principally to the United States. The average annual domestic consumption of tung oil, during the five years from 1933-34 and 1937-38, was estimated at about 39 thousand metric tons. During the war years, domestic consumption of tung oil increased owing to the shortage and higher prices for other oils. In addition to its ordinary uses, tung oil was used for lighting purposes as a substitute for kerosene in rural districts and also in cities due to power shortages. Consumption was about 60 thousand tons for 1944-45, about 45 thousand during 1945-46, and 42 thousand during the 1946-47 season. However, no matter how desirable is the foreign exchange to be realized therefrom, we must have enough for domestic consumption. North China used to be the principal consumer and in the event of improvement in transportation between north and south China, the amount of home consumption might exceed that of previous years. It is expected that there will be more paint and varnish factories established in China, and that domestic consumption of tung oil will increase.

Although China produces a huge crop each year, there are no big plantations or extensive fields for tung cultivation. Tung oil is a side line with Chinese farmers, not providing their sole livelihood. The tung growers regard the crop as an auxiliary product, and the proceeds from its sale as supplementary income. The cost of their oil is estimated in terms of barter against rice, cotton yarn, cloth, kerosene, matches, dye-stuffs and other necessities. Thus, tung trees are grown mostly on hillsides adjacent to farms, with the more fertile land devoted to the cultivation of food crops. Tung nuts are usually harvested after other staple crops, such as rice, corn, etc., and sold for whatever the market will bring. Tung nuts are purchased by village oil mills which extract the oil for sale. Equipment of those mills is inexpensive, and the process of oil extraction is simple. The nuts are dried in brick ovens and then ground into powder, which is in turn baked for further reduction of moisture, and then pressed for oil extraction. Finally the crude oil is packed in paper lined bamboo baskets or wooden tubs, or the new and more preferable kerosene tins and iron drums imported by mineral oil companies. The oil is then traded, and conveyed from village to town, town to city, and city to trading centers for consumption or export. The process from the collection of the nuts to the stage when the oil is finally shipped from the trading centers, involves many intermediaries and long distances of transport. The number of hands through which the oil passes depends on the trans-

portation facilities. Tung oil is generally sold to millers and peddlers, thence to village dealers and in turn to larger oil dealers—the intermediaries between the farmers and the oil "Hongs". The dealers travel into the interior to purchase the output from the millers, "Hongs" in turn purchasing the cargo from the dealers and selling to exporters directly—thus aiming at the profit accrued from the difference in price. They usually take advantage of the bull or bear market and speculate accordingly. Some "Hongs" appoint buying agents in the interior. The oil shops buy the oil from the dealers and sell it to exporters through brokers. In sections of China, the services of brokers are necessary for all transactions, since it is the custom that buyer and seller never meet each other. These brokers are paid periodically for their services, and in addition, receive a commission based on the value of their purchases. Before reaching the exporters, the oil goes through several intermediaries, such as: farmers, oil peddlers, oil dealers, oil shops or "hongs", oil brokers and exporters. The cost of the oil is determined by the amount of intermediaries from the miller to the exporter. This all adds up to such a high percentage of the value of the oil, that the production of tung oil is unprofitable to the farmers. They get what is left after all the others have taken their share.

Forward transactions are unavoidable due to transportation difficulties between producers and seaports, and the financial weakness of Chinese oil firms and dealers. This is especially so because of the variance in quantity on foreign orders. Agents or representatives of foreign importers avoid the risk through buying at prices quoted by home offices and leaving the sellers to run the gauntlet of timely deliveries by all constituent links in the chain. Chinese oil firms are not established for direct contact with foreign markets. It seems that a few cables received every morning by foreign agents dictate to the market, bringing fortune or bankruptcy to oil merchants.

No success has accompanied private efforts to establish modern centralized tung oil mills at Hankow, Shanghai, Hongkong, and other strategic points. Instead, innumerable small primitive local mills, scattered throughout the tung producing region, continue to account for almost the total Chinese tung oil presses.

The important trading ports in normal times were mainly concentrated at local trading centers along the Yangtze River as Chungking, Wansien and Ichang, with Hankow and Shanghai as centers for export. Only Kwangsi oil was shipped to Hongkong for export. Tung oil was shipped from interior cities chiefly by river routes to the trading centers where it was tested, for trans-shipment or export. In central China, Hankow is the leading market for tung oil produced in the western and northern part of Hupeh, northwestern part of Hunan, and southern part of Shensi, with Ichang, Laohekow, Changteh and Changsha as its collecting centers. Transportation of tung oil from these ports to Hankow is primarily by means of large junks; at Hankow, the oil, after being reconditioned and refined, is loaded on regular river vessels and shipped to Shanghai for export. Hankow has several advantages for tung oil exportation over its competitor ports: it is immediate-

ly downstream on the Yangtze from China's main tung oil producing regions, and it lies at the head of stream navigation for large steamers during certain periods of the year. Thus Hankow became the leading tung oil trading and shipping center. Oil storing at Hankow generally requires classification, in order to bring it up to desired export quality. During the winter months, the tung oil is generally shipped by freighter to Shanghai for loading to tankers, but in summer, ocean steamers come direct to Hankow for loading. Hankow tung oil is distributed to other cities for local consumption and also to foreign countries. Hankow's exported quantity has had a downward trend from 1913 to 1930; on the other hand, the general trend for exported value is upward. This means an advance in price with a decreased foreign demand for oil from Hankow. The cause for the decrease in quantity is the diversion of trade. The exporters will not buy the product in Hankow, but they appoint buying agencies in the interior producing districts and send their purchases directly to Shanghai for export. During the Sino-Japanese war period, owing to the fact that Shanghai was occupied, Hankow played a more important part again. However, in China's tung oil market, Hankow constantly maintains its leading position.

Shanghai is a port of trans-shipment of almost all Chinese tung oil, with the exception of Kwangsi's and Kwangtung's output which is concentrated in Hongkong. Shanghai's exports in tung oil were not significant before 1926, since then the export increased both in quantity and in value. Shanghai's superiority over Hankow is due to its financial strength and the numerous foreign merchants represented there. The prime determinant, however, is that Shanghai is the seaport itself; foreign exporters will effect their purchases more conveniently there than in the interior. Since the war in 1937, Shanghai has not regained her former position. Many Shanghai dealers directed their interests to other channels. But now, Shanghai again is leader in China's market.

Hongkong is an important tung oil trading port of south China. Although oil produced in Kwangsi is ultimately collected at Wuchow and Canton, the actual sales for export shipment are transacted through Hongkong. Considerable variations occur, however, from year to year in the relative amounts of tung oil shipped through Hankow and Hongkong. This is a reflection of comparative transportation, political and military conditions.

TUNG OIL EXPORT TRADE OF CHINA

Importance as an Export Commodity. For many years, tung oil played the most important role in China's export. Practical demonstrations of the valuable properties of the oil, increasing knowledge of proper technical procedure, and adaptation of the product to new industrial applications in foreign markets, have been equally responsible for the progress achieved in the development of China's export trade. Tung oil's major utility is in the paint and varnish, linoleum and oilcloth and printing-ink industries. The use of tung oil has expanded but world consumption has not yet reached saturation point.

In the thirteenth century, Marco Polo, returning from China, described "wood oil" being used by the artisans of Cathay in the

production of their fine enamels and lacquers as follows: "The Chinese take some lime and chopped hemp, and these they knead together with a certain wood oil and when the three are thoroughly amalgamated, they hold like any glue, and with this mixture they paint their ships." Although the use of tung oil for ships was first known to Europe at that time, its export dates only from 1516, when the Portuguese traders came to Kwangtung, and received from the merchants a commodity designated as "China wood oil". Since then, navigators and traders from Europe seeking spices and other commodities, would transport tung oil back to their countries. The exporting cities were Canton and Amoy, and the quantities exported were limited.

The recent rise in China's exports of tung oil has been matched by increased imports of that commodity into the United States. It was as late as 1905 that American manufacturers first became concerned with the use of tung oil. Between 1914 and 1918, tung oil afforded the American varnish manufacturers a new tool. Englishmen, however, had not in the beginning the same incentive to change their methods, but as the special characteristics of tung oil came to be recognized, they gradually adapted their methods. Consequently, the imports of tung oil to Great Britain have been increasing. Nevertheless, the United States still holds the dominant position as importer and user of tung oil. Prior to the recent war, the United States annually imported between 100,000,000 and 175,000,000 pounds, representing 20 to 30 percent of her total imports from China.

The world today is on the lookout for new sources of tung oil. The United States accounts for 70 percent of China's exports, the remaining 30 percent going to Europe, South America, and other consuming countries.

During 1947, China's total export of tung oil was 73,653 metric tons valued at U.S. \$30,000,000. Out of these 48,740 tons were shipped to the United States, 7,850 tons to the United Kingdom, 3,124 tons to the Soviet Union, and 2,539 tons to other countries.

The United States as Leading Market. Although the demand of tung oil increased in all industrial countries prior to the recent war, the United States' allotment represented the largest part of the world's demand. The first shipment of tung oil to the United States was made in 1869, but it was not until 1875, with the discovery of its quick drying properties which even surpassed those of linseed oil, that tung oil stepped in line as an important industrial raw material. Imports into the United States then increased, and since 1900, there has been a marked expansion. In recent years, the volume of imports of tung oil from China has grown to well over 60,000 tons a year, and it has assumed an outstanding position in China's foreign trade, occupying first place in value among commodities exported in 1939.

The rapid growth of the American paint and varnish industry, as well as the development of new outlets for tung oil in America, account for the United States' becoming the outstanding world market for this product. The most important asset of tung oil is its quick drying property. The paint and varnish industry alone consumed 120 million pounds of this oil in 1937. Numerous important usages have developed for varnish: for the surfacing of floors and woodwork; for motor coaches and buses, automobiles and for the protective coating of tin; in electrical printing; as an insulating material in the electrical industry; as a preservative covering for aeronautical parts exposed to the elements. Varnishes composed of tung oil have expedited work and reduced the necessity of early replacement in industrial operation and maintenance work. The demand for this oil in industrial varnish manufacture is bound to expand in future. When incorporated into flat paints, tung oil produces a highly resistant surface of enamel-like smoothness. Applied to wood, iron, millboard, asbestos, cement, and other bases, it has been found to withstand considerable wear. Tung oil in a mixture with aluminum powder, gilsonite, asphalt, or other preservative materials, has been increasingly employed in the protective covering of ironwork, metal roofs, storage tanks and sidings.

Second to the paint and varnish industry as an important consumer stands the linoleum and oilcloth industry, which used about seven million pounds of tung oil in 1937. In the manufacture of linoleum, oilcloth, and artificial leather, tung oil is used ordinarily as a vehicle for other coating substances. The printing ink industry consumed three million pounds of tung oil during 1937, chiefly for specialty inks, such as those used in bronze printing. The manufacture of miscellaneous products in 1937 consumed about five million pounds, and 28 million pounds were listed as "unaccounted for". A portion of this latter quantity was used in the manufacture of waterproof composition for concrete; gaskets for steam pipe, pumps, and engines; and cartridge-waterproofing. During the war, tung oil was vitally important in waterproofing of shells and other munitions.

The consumption of tung oil in the United States has declined drastically since 1937. In that year, tung oil accounted for 17.3 percent of the total weight of fats and oils used in the drying industries, as against 1 percent in 1944. This decline in consumption occurred not because of any lack of demand, but mainly due to a radical reduction of supply. Ever since the first recorded shipment of tung oil to the United States—138,635 pounds, valued at \$53,641, from China in 1869—American tung oil consumers had been dependent upon foreign supplies, although some Chinese oil reached the United States indirectly through other hands. Before this, the oil was imported for experimental purposes. The United

Tung Oil Exports (in tons):

Year	U.S.	Europe		Others			TOTAL	
		Quantity	% of Total	Quantity	% of Total	Quantity		
1935	53,608	72.6		16,145	21.8	4,133	5.6	73,886
1936	65,445	75.5		17,526	20.2	3,767	4.3	86,738
1937	72,745	70.6		21,104	20.5	9,129	8.9	102,978
1938	43,022	61.8		15,797	22.7	10,760	15.5	69,579
1939	27,595	70.1		7,190	18.3	4,564	11.6	39,349

States imported 175 million pounds of tung oil in 1937, 159,329,562 pounds of it from China. The United States normally takes 75 percent of China's tung oil but with the outbreak of the Sino-Japanese war in 1937, acute transportation difficulties developed, and exports of tung oil from China suffered a decline. The following year, only 107 million pounds were exported, and the year after 79 million pounds. By 1942 imports of tung oil to the United States had fallen as low as eight million pounds; by 1944, they were down to less than two million pounds, and most of that amount came from the Argentine rather than from China. Of the 1,770,585 pounds imported in 1944, only 31,536 came from China. The 339,473 pounds imported in 1945 came chiefly from Argentina and Brazil. However, the next year, 1946, China exported 35 million pounds to the United States. There was in 1947 a marked improvement in the trade, as evidenced by the fact that 121 million pounds, representing 99.59 percent of total United States imports were from China.

American Tung Oil Loan:- Subsequent to the fall of Canton and Hankow during the Sino-Japanese war, the United States suggested that the Chinese government send a financial mission to approach the United States Congress in 1938-39 relative to a possible loan to China. The mission was composed of China's Foreign Trade Commissioner and two financial and commercial experts. They were negotiating a loan based on China's ability to pay in terms of natural resources. China had a number of resources not being importantly nor sufficiently produced in the United States, particularly tung oil, tin, tungsten, and bristles. China was in a state of disruption at the time and it was likely that trade would suffer further. A loan from the United States was needed to accelerate trade. The mission proposed to organize two companies to handle the business—one in the United States to sell Chinese products and buy U. S. manufactured goods, the other in China to develop the industry and deliver the raw materials. It was suggested that the first loan be based on tung oil, China's most important product in the United States trade. China agreed that the proceeds of such a loan be turned over to the proposed company located in the United States, rather than directed to the Chinese government, & that the records of this proposed company be available for U.S. government inspection at all times. In agreeing to use half of the proceeds of every sale of tung oil for regular payments on the loan, China was to keep the loan alive and the credit good, and at the same time, have the other half, to purchase additional United States goods or munitions. At that time, the mission had no difficulty proving that China could deliver tung oil. The Japanese were busy consolidating gains in northern China, and the coast of southern China was relatively open, although Canton had fallen—and the Indo-Chinese railway, from the province of Yunnan to Haiphong provided a sure outlet. Thus, the tung oil loan was granted in December 1938 by the Export-Import Bank, for the sum of U. S. \$25,000,000.

In New York the Universal Trading Corporation was established, and in Chungking, the Foo Shing Trading Corporation. The Universal Trading Corporation had one class of common stock, \$500,000, entirely owned by the Chinese government. Since its formation in October 1938, Univer-

sal has sold 41 million pounds of tung oil, and the Chinese government has purchased some \$32 million worth of machinery and goods in the United States. On the selling side, Universal had to solve some complex problems. The corporation, admittedly set up to receive all the tung oil that China could ship, had to prove to the American paint and varnish industry that it was in no way effecting a monopoly to charge as much as the traffic would bear. Since tung oil is a necessary ingredient for that industry, there was good cause for the industry to fear a squeeze. Universal tried to convince the industry that they intended to get a reasonable price for the oil, but were too fearful that substitutes would cut into the tung oil market if tung oil prices were raised too high.

The task of collecting and exporting oil was carried on by Foo Shing Trading Corporation, organized in China, at the same that Universal was in process of formation. Foo Shing delivered 41 million pounds of tung oil, worth more than \$8,745,000 in the first two years: that was used to pay off nearly \$4,700,000 in interest and capital on \$20,840,000 borrowed on the \$25,000,000 tung oil loan.

The American tung oil loan, according to O. C. Lockhart, "was unconditionally guaranteed by the Bank of China, and the Universal Trading Corporation agreed to apply 50 percent of the net proceeds of tung oil imported and sold pursuant to the Foo Shing contract to the repayment of its notes to the Export-Import Bank. The notes were to be repaid not later than Jan. 1, 1944, and bore interest originally at 4½ percent. The Bank reduced the rate to 4 percent on June 25, 1940. The amount of the credit utilized was \$22,000,000 and this sum plus interest was repaid in full on March 30, 1942, out of the proceeds of the sale of tung oil from China. The remainder of the credit, namely U.S.\$3,000,000, was cancelled on December 11, 1943."

Exports to Other Countries:- The United States market for tung oil is more significant than the European market. Several factors are involved in this unusual situation: the existence of extensive flaxseed acreages in Europe and the strong position of the linseed oil industry there have made for many years made the entry of other drying oils difficult, regardless of their qualifications; the relatively low purchasing power of the average European buyer of varnishes and paints has forced him to remain content with linseed oil products; the conservatism of the average European manufacturer has caused him to hesitate in changing his formula to use a relatively new and untried product such as tung oil, and the reluctance of European countries to become dependent upon an essential raw material which is available only from a single distant source, which might become inaccessible during wartime.

The leading European outlet for tung oil is Germany, because of its highly developed paint and varnish industry. The United Kingdom ranks second Europe, France third, then Denmark, Italy and the Netherlands in their respective order. China tung oil moves to few places beyond Europe and the United States, due chiefly to their lack of industrialization. Japan is the only other significant purchaser. The extensive manufacture of varnishes, linoleum, oil-

cloth, and other products employing tung oil, establishes Germany as the most important European consumer. China's export statistics do not indicate Germany's prominence, since a considerable share of the tung oil enters that country from the Netherlands, Great Britain, and France. The United Kingdom is the second largest market for tung oil in Europe, average requirements being estimated at 9,000,000 to 10,000,000 pounds annually. The principal use of tung oil, is in the varnish and paint industry. The import of tung oil into England had become essential by 1914. During the war years, there was a great increase in the demand for tung oil. However, the present consumption of linseed oil for paint and varnish manufacture in the United Kingdom is more than twelve times that of tung oil.

France ranks third in Europe as a tung oil market. Trade estimates indicate that France's consumption ranges from 3,500,000 to 4,000,000 pounds annually. A substantial quantity of tung oil imported by French consumers is purchased through agents in the major European trading ports. Paint and varnish manufacture is one of the oldest industries in France. Japanese tung tree is derived from Aleurites Cordata, a tree of the same family as Fordil and Montana, which yield the Chinese produce. The oil from Cordata is not competitive with tung oil. Since production in Japan is relatively small, the annual output in recent years slightly exceeded 1,000,000 pounds, but consumption of tung oil in Japanese industries is estimated at 2,000,000 to 3,000,000 pounds. Local production does not fully supply Japanese requirements, necessitating shipments from China. Tung oil is employed principally for the manufacture of varnishes, the waterproofing of umbrellas and in lacquer and lacquerware. The Japanese paint & varnish industry has progressed considerably during the past two decades.

PROSPECT OF TUNG OIL

Potential Market for Tung Oil:- Tung oil has recently become the outstanding export commodity of China. In 1913, it ranked eighteenth in commodities exported, representing less than one percent of China's total exports. During the past few years, China's annual export of tung oil has expanded to over 200,000,000 pounds, valued at twenty to thirty million U. S. dollars, until now it is China's foremost export item, accounting for about 15 percent of her total export. The world demand for tung oil was never adequately met pre-war, since the consuming industries geared their production in ratio to quantities available. As a case in point, the United States normal annual requirements for tung oil surpass 150 million pounds, and Chinese imports cover approximately 102 million pounds, despite the extensive plantings that have been made in this country. Yet the United States could consume 300,000,000 to 400,000,000 pounds annually, were such amounts available steadily and at reasonable prices competitive with other drying oils. Great Britain decontrolled tung oil in October 1947 and is gradually liquidating its governmental stockpile by stipulating that importers purchase quantities proportionate with their shipments. An acceleration of Great Britain's recovery program was anticipated in 1948, increasing her imports of tung oil to over 12,000 tons. The European countries are developing into potential purchasers comparable with Great Britain. Belgium has

began producing a commodity known as "Copasen", composed of tung oil and resin imported from Japan. There is also good prospect that Germany, France, Italy and Russia will soon extend their markets to include this commodity. The consumption of tung oil in European countries increased steadily in pre-war years, particularly in Germany, Great Britain, France and the Netherlands. The total quantity of tung oil consumed in these and other countries approximated 30 percent of China's exports, or about 50,000,000 pounds annually. A reasonable assumption is that larger quantities of the oil would be consumed, if available at the right time and at the right price. The possible capacity was estimated at from 100,000,000 to 150,000,000 pounds annually. Under conditions prevailing before the war, the international market constituted a total requirement of 400,000,000 to 550,000,000 pounds, far exceeding the total world production.

The Properties of Tung Oil: As the world became aware of the protective value of coating materials, the use of vegetable oils with drying qualities for the purpose increased. The various vegetable oils were then classified into drying, semi-drying, and non-drying oils. Any vegetable oil that on exposure to air absorbs oxygen and gradually dries into a tough film when applied in a thin layer, is called a drying oil. Not all vegetable oils possess this drying property. Good drying oil not only dries rapidly on exposure to air, but the film formation is durable, waterproof and weatherproof. China tung oil, when properly treated, forms a hard film which can be ruptured only by definite pressure, and thus is considered to be one of the best-known drying oils. Many of the American paint and varnish scientists consider tung oil the most durable, waterproof, and hardest of all the oils used in their industry.

Two factors create competition of similar raw materials. The qualities and properties of the material itself constitute the first requirement—whether they are such that another material or combination thereof may be substituted. The other is the economic factor—their relative values and availability at competitive prices. Numerous drying oils of vegetable origin and commercial importance, are utilized in the industry. Varnish consists of four principal ingredients: oil, resin, solvent, and driers. A drying oil is one which becomes dry and solid when applied as a film, in contrast to a non-drying oil, such as peanut oil or fuel oil, which remains wet or sticky months afterwards. Varnish derives its toughness and flexibility from the oil content; consequently, the more oil employed, the more elastic the varnish film. This quality is of vital importance for varnishes used on textiles, on raincoats for example, and on exterior surfaces, as boats, wooden homes and exposed structures. Tung and linseed oils are the two important oils in the varnish industry.

Tung oil is a very economical oil even when sold at higher prices than other oils. Consider these prints: Due to its fast bodying action, its fast drying and its waterproof quality, cheaper resins can be used with tung oil with better results than will be secured with other oils containing more expensive resins. Since other oils body so slowly, the varnish maker always bodies his oils to a high viscosity before he uses them in the manufacture of varnish. This involved

prolonged cooking, which process is quite unnecessary with tung oil. Many oils have to be refined before cooking. This is unnecessary with tung oil.

Many drying oils are utilized in present-day manufacture, to mention a few, oiticica and perilla oils, and the popular dehydrated castor oil. No replacement has yet been discovered to compare with tung oil, considering performance and cost, despite years of research. American varnish technologists have some opinions on the subject: "There is no other oil which will successfully replace tung oil in all formulations, particularly in waterproof spar varnish. Oiticica oil and perilla oil may be used as substitutes for tung and linseed oil with fairly parallel results if the waterproof requirement of the varnish is not too rigid...enough for commercial purposes at least. The best procedure is a mixture of tung varnishes, one constructed of tung and linseed oil base, and the other on the oiticica or perilla base. Where tung oil has been used in combination with linseed and fish oil, a substantial amount of tung oil may be replaced by perilla oil. In other words, in paints and varnishes where waterproofness is not an essential feature but rather where commercial quality only must be maintained, substitution can be made along the line suggested. No definite ruling can be made as to the amount of perilla which can be substituted for tung oil in these paint formulations as it depends upon the formulation in question each time. It was thought in the beginning that oiticica might prove to be a substitute for tung oil, experience has shown that oiticica's drying properties are between those of tung and linseed oil, but it is definitely not a substitute for tung oil."

The newest trend is the recognition of dehydrated oil as an important independent vehicle and its more frequent use. As one of the chemists stated: "Dehydrated castor oil is similar to tung oil in that both can yield a frosted or minutely wrinkled film when permitted to dry alone, without further treatment. This property, together with studies of their absorption of infra-red rays indicate that a large percentage of the components of the new oil are similar to those in tung oil which contributes to the rapid drying and durability of the films."

Dr. Henry A. Gardner, one of the first advocates of American tung oil production, pointed out that "at the present moment, there is an oil which very closely resembles tung oil. But at best, this oil cannot compete with tung oil under normal economic conditions."

In wartime, the discontinuance of Chinese tung oil shipments made research for substitutes imperative. Some of the replacement oils were oiticica oil, dehydrated castor oil, isomerized linseed and soybean oil, and the maleic chemically treated oils, fractionation oil from natural oils and fatty acids. Synthetic oils obtained by esterifying sorbitol and mannite alcohols with drying oil acids were also developed and it is believed the price factor will determine their future. Synthesis has recently developed a rubber superior in many properties to the natural product but the price of the synthetic material is out of line so that the natural product continues to dominate the market. Nevertheless, synthetic rubber is now established and the natural item will never again market at exorbitant prices. The development of a

synthetic tung oil might act in a similar manner, without disturbing the use of the natural product. Attempts to produce materials by synthesis when successful, usually result in materials with additional valuable properties, which makes them additionally useful for entirely new applications, and thus extends the scope of the market for both.

Stabilization of Price Fluctuation: Under normal conditions, the price of China tung oil in foreign markets is determined by the cost of production, processing, transportation, and marketing on the part of China, as well as by the rate of tariff duties and the cost of handling on the part of the importing countries. The fluctuation of China's tung oil price is mainly caused by China herself. As previously mentioned, Chinese tung oil, on its way from the farmer to the foreign importer, passes through a number of intermediaries who increase the cost repeatedly through speculation. The economic situation and transportation difficulties always affect freight charges and costs, in addition to the risks and losses involved for the dealers.

The price of tung oil is characterized by extreme instability. Over a period of five months in 1923, it jumped from 15 cents per pound f. o. b. New York to 42 cents, which represents an increase of 280 percent. The crash from this peak was equally spectacular, from 42 cents attained in May, to 18 cents in the following month.

During that period, other competing oils were quoted as follows (per lb., New York):

Oil	High	Low	Difference
Tung oil.....	42.0	15.0	27.0
Linseed oil.....	16.0	11.6	5.4
Perilla.....	16.5	13.6	2.9
Soyabean.....	13.0	10.0	3.0

The years 1932 and 1933 are the worst on record in the tung oil trade. While the average price in January 1932 was quoted as 6.1 cents per pound, it depreciated during the year until in December of 1932 it sold at 4.2 cents. This weak tendency existed until well in 1933. In 1934, the fluctuations in price were comparatively within a reasonable range, but in 1935 the upward trend reoccurred, from 9.2 cents in January up to 14.3 cents in March, representing a 160 percent increase in three months. The price was quoted as 17.5 cents in May, 21.2 cents in August, and 35 cents in September. The following month saw a decline to 268 percent of the September value, with the price at 16.4 cents. By way of comparison, a table of prices of competing oils during the same period, showing the violently fluctuating tung oil prices, is given below:

Oil	High	Low	Difference
Tung oil.....	35.0	9.2	25.9
Linseed oil.....	9.8	8.9	0.9
Perilla.....	9.7	7.3	2.4
Soyabean.....	12.0	9.7	2.3

The price variation in 1936 was not as severe as in the preceding years, although wide differences were noticed. In January, the average price was 13.1 cents; the market continued stable from February to August, when the level between 17.9 and 18.9 cents was reached. Thereafter, it declined to the lower level of 12.7 cents in September. The years of 1937, 1938, 1939 and 1940 passed under the shadow of the Sino-Japanese War,

with tung oil prices fluctuating along the line between 13.5 and 26.3 cents. At the close of the last pre-war period in 1941, China tung oil price began a steady climb from 26 to 35 cents, and by January 1942, the price of tung oil stood at 38 cents, which price remained in effect through September 1946. Linseed oil, on the other hand, continued at a high of 15 cents throughout the war period, with increases to 16 and to 18 cents in September 1946. The price of tung oil was excessively high throughout the war period, in comparison with prices prevailing then on competitive oils, due to abnormal and somewhat artificial conditions. China's exports have recovered gradually since 1947, and the price of tung oil has dropped considerably in relation with other competitive oils.

	1939	1947
Oil	Average	Oct.
Tung.....	20.0	27.5
Linseed oil, raw.....	9.0	31.3
Castor oil, dehydrated.....	12.3	29.0
Oiticica oil.....	14.0	25.0

Since tung oil is one of the international speculative products, industrial consumers prefer more price stable oils for quantity production, for example, linseed, soyabean, castor, and various synthetic oils, all of which fluctuate within reasonable limits.

In June 1947, an announcement establishing a floor of 25 cents a pound for tung oil and 30 cents a pound for linseed oil was made by the U.S. Department of Agriculture. According to the American Tung Oil Association it was unjustified, inadequate and a threat to the tung oil industry generally. They saw no justification for the establishment of a price of 25 cents a pound for a superior product and 30 cents a pound for an admittedly inferior competitive material. Although they conceded that the prices of tung oil during the periods of war and reconversion were high, they maintained that the price should be stabilized at a figure fair to the consumer as well as the miller and the grower. Historically tung oil always outsold the other oils, such as linseed, castor and oiticica, to the tune of at least a 30 to 35 percent margin in price.

The decline on China's exchange caused the Chinese trade situation to look very black. The decline in exchange forced a considerable amount of tung oil to abandon its normal channel of shipment through Shanghai, where it was constantly under Chinese government supervision, for Hongkong, where the oil was delivered by smugglers. Due to black market operations in Chinese exchange, tung oil prices were made more unstable. The American tung oil producers, together with a U.S. House representative, then introduced two bills seeking under provisions of the Anti-Dumping Act that the U.S. Treasury Department withhold appraisal of a commodity offered for export to this country, when it can be proved that an American industry would be injured by the importation of such a commodity, offered at a price below the cost of production; where proof of dumping is clearly established, the United States Government may impose a tariff equalling the difference between the domestic market price and the foreign market value. After a careful investigation by the U.S. Government had proven that Chinese exporters had not offered at a price below their cost, it was evident that China's tung oil had not been dumped in the United States. Thence the

investigation was officially called off in May 1948.

Improvement of China's Production Methods.—The fundamental determining factors for the future of China tung oil as an export commodity, are its price and quality in relation to the tung oil and substitutes of foreign countries. If the tung oil supply remains irregular, the quality remains unstandardized and prices continue to fluctuate as violently as in the past, the tung oil will soon lose its international market. To counteract these conditions, tung oil must be produced, not as a byproduct of the forest, but as an export commodity, to insure as far as possible an even flow of oil to market, at a price which may be slightly higher than that of linseed oil but comparable with other drying oils. The quantity and quality of the oil are determined partly by the natural factors of production, such as climate and soil, in which regard China seems to have a distinctive advantage, and partly by the technique of cultivation and processing. The major lines of technical and economic improvements are better methods of cultivation, processing, and marketing.

Cultivation.—Centralization of cultivation is by far China's predominant field for improvement. Maximum efficiency of production, processing and marketing, can only be achieved by concentrating the particular industry in a certain limited area. Tung oil production might well be concentrated in certain limited areas in China where suitable soils, climate and transportation are available. These areas might be divided into districts and through governmental and farmers' organizations, large-scale cultivation might be developed. This would be possible economically if the annual production within a given area were adequate enough to supply each mill with sufficient nut produce.

Processing.—Chinese farmers never receive the true value for their tung nuts, owing to the amount of middlemen and the different weights and measures used in the purchase and sale. Therefore, it is suggested that, to simplify the selling process, a national standard for commercial tung nuts based on quality be established. Tung oil in China has always been extracted entirely by means of a wooden wedge press, and this method is still in existence today. The entire process of wedge pressing consists of cleaning, and drying, grinding the nuts, steaming the meal, forming the cake, and pressing out the oil. As far as output is concerned, efficiency is low. The continued use of these presses is far more economical and practical than would be a change-over to modern expeller mills. To date, no place in China could supply enough tung nuts to keep an expeller mill in operation, and the investment would necessarily be large, while the interest and depreciation would be high. Primarily, improvements could be made on the wedge press itself, insofar as its costs and simplicity of construction are concerned. Improvements could also be made in the methods and equipment used for drying, grinding and pressing nuts, which would in turn reduce the cost of milling and improve the quality of the oil. For long run operation, the modern oil mill equipped with expellers should be established. The primitive Chinese wooden press offers many disadvantages: the presence of a large percentage of precipitate; the absorption of oil by the wooden press; impurities caused by the adherence of dust to the press; waste of

oil caused by the weak express; the low efficiency; relatively small output, and the waste of time. Experiments have been conducted in the United States relative to the selection of a method of extraction. The best method found is pressing with a continuous expeller as its use allows a 33 to 35 percent oil extraction from American produced nuts. This may effect a noticeable increase in both the quantity and quality of China's tung oil produce. A modern tung oil mill should always be located in a tung oil producing area where the supply of tung nuts and other oil seeds is abundant enough to maintain a normal operation of the mill throughout the year. It is always advisable to store the tung nuts in warehouses no longer than five months before processing, to avoid the oil freezing in the nuts. Transportation facilities and adequate supplies of power, water and labor, must all be considered when establishing the mill.

Marketing.—Tung oil production has never been gainful to the Chinese farmer, as was mentioned before. Annually after the "Fall of Frost"—a festival occurring in late October or early November farmers begin transporting their nuts to neighboring oil mills, for cash sale or oil cake bartering. Millers, peddlers, and village oil dealers, sometimes deliver the nuts to the mills, and in addition they handle distribution of tung cake, and the collection of oil for distribution to small-town oil merchants. Since the farmers can never hope to acquire the true value of the nuts, even with skyrocketing oil prices, they see no reason for seeking loans at high interest rates for tung tree growth. Consequently, tung tree plantation is considered a side line. Attempts should be made to interest the farmers in the market situation, as once they realize the crop's profit to them, they will naturally devote themselves to its cultivation, and improvement should undoubtedly follow. To further this end, a market-news, or information service, should be established, based on daily reports on conditions of supply and demand at important producing market and export centers. Such a step would be a stimulant to production. In conjunction with farmer instruction, the organization of tung oil millers or dealers into well-financed marketing associations would do much to promote the industry. Such groups would lessen the amount of intermediaries now handling the oil, suppress unreasonable speculation, control the price fluctuation and exercise such regulations outside the capacity of the individual. Cooperatives of tung producers financed in both processing and marketing by the association would tend to further this development. Prewar operations in tung oil trade were mostly financed by agents or representatives of foreign importing firms at collecting centers and export ports. Upon receipt of advanced payment from forward transactions, the brokers or collectors extend credit to local dealers, who in turn reloan it to petty collectors or millers. The foreign importers had financing arrangements with the foreign banks, and the Chinese brokers were financed by both Government and private banks. Consignment of a forward sale is too risky for anyone under present-day conditions, and as a result, financing has become a grave problem for dealers and millers in the interior. Thus, the above mentioned association is very vital in its financial arrangement. Some arrangement should be made whereby exporters would

Trade Between China & Japan

Prior to the Sino-Japanese War, which began in 1937, China's trade with Japan and Taiwan accounted for 15 percent of all exports from China Proper (excluding Manchuria), and about 16 percent of its imports. The volume of this trade, which was equivalent to US\$90 million in 1936, was surpassed only by the trade of each country with the United States. The principal commodities exchanged are listed below in order of their relative value in the bilateral trade in 1936.

Chinese Imports from Japan: 1. Textiles 2. Metals and ores 3. Machinery and tools 4. Consumer goods 5. Fishery and sea products 6. Chemicals and pharmaceuticals 7. Paper and wood pulp 8. Vehicles and vessels 9. Sugar and sugar products.

Chinese Exports to Japan: 1. Textile fibers 2. Cereals and cereal products 3. Animal and animal products 4. Seeds 5. Fuels (largely coal) 6. Ores, metals (chiefly iron and antimony) 7. Hides, leather, and skins 8. Chemicals and chemical products (chiefly salt and varnish).

make advances on tung oil orders. The assembling, refining and marketing of the oils could be financed by this means, and it might possibly lessen costs and promote more rapid shipments. The only workable procedure would be for foreign importers to issue a letter of credit for cashing on delivery of the bill of lading.

Relative to the technical problems of marketing, improvement should be made in refining, packing, and inspection.

Establishment of refineries—The primitive method of refining should be revised. The refinery should operate on a large scale, so that its establishment may serve for the standardization of quality, so essential to a product in international trade. As a matter of fact, China tung oil exceeds the present specifications for export oil. High quality oil frequently is mixed with low quality oil, which lowers the quality of the high grade oil. Efforts should be made to segregate different grades of oil, so that advantage can be taken of the high price for the higher quality oil.

Inspection—Testing bureaus have been established by the Chinese government for the discouragement of dishonest practices of adulteration, which have been damaging to China's commercial credit abroad. Governmental testing bureaus to prevent adulteration are in operation at Shanghai, Hankow, Chungking, Wanshien, Canton, Tientsin, Kunming, and Tsingtao, the first five of these now testing and inspecting oil for export. In addition, two more bureaus have been recommended—one at Changsha, and the other at Wuchow.

Packaging—There is no uniformity in present-day packaging of tung oil in China, the leakage from the wooden tubs exceeding that of the commonly used bamboo baskets. The new and preferable kerosene tins and gasoline drums prevent undue leakage and, although prices have gone up sharply, their overall use is suggested to reduce losses and adulteration.

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Since the end of the war, trade between the two countries has been directed largely by the Central Trust for China, and by SCAP for Japan; this trade has been under a barter arrangement in terms of U. S. dollars, and it differs considerably from prewar trade. Textile fibers, mainly cotton and ramie, formerly China's chief exports to Japan, dropped out owing to short supply in China and absorption by the domestic textile industry, while barriers have been raised against the entry of all Japanese textiles, which in turn formerly represented China's chief import from Japan. Japanese metal ores, machinery, and tools have been eliminated from the trade because they are either necessary to domestic production or are available as reparation. Consumer goods and fishery products, previously high on the list of imports from Japan, are considered luxury items and cannot be imported. On the other hand, the economy of China is for the present incapable of exporting cereals, animal products, and fuel, which formerly constituted an important portion of her shipments to Japan. For these reasons, the volume of trade in 1947, under the barter agreement, amounted to only US\$13 million, or less than 20 percent of the prewar volume.

Chinese exports to Japan, chiefly comprising salt, tung oil, and wheat bran, totaled in 1947 only US\$3.7 million; while imports from Japan, chiefly rayon yarn, mining timbers, woolen fabrics (for re-export), cigarette paper, and miscellaneous transportation and communications equipment, amounted to nearly US\$10 million. Approximately half of these imports were turned over to Government agencies, while the remainder, including all the rayon yarn, was sold on the domestic market by the Central Trust. A portion of the substantial profits realized from these sales was used to purchase and to subsidize, if necessary, exports to Japan.

Including the 1946 barter deficit of US\$1.2 million, and a 1947 estimated US\$1.8 million accruing to SCAP's account for transporting goods to Chinese ports, China's excess of imports under the agreement had reached a total of US\$9.24 million by end of 1947. Although the Central Trust hoped to procure salt and Kailan slack coal for shipment and had quantities of bristles, tung oil, hemp, bean cake, and bean paste available for export to Japan in 1948, the outlook for increased barter trade was not favorable, and was expected to decrease until some means of adjusting China's unfavorable balance could be devised.

Supplementary to the barter trade, SCAP and the Central Trust endeavored to negotiate contracts for the sale of such commodities as soy beans and Taiwan sugar, which are in short supply throughout the world, for U. S. dollars. The only sale completed during 1947 was that of 5,000 metric tons of soy beans for approximately US\$832,000. Since China was eager to increase her supply of U. S. dollars, it was expected that efforts to conclude additional sales would continue throughout 1948. In addition to soy beans and Taiwan sugar, China has iron ore which can be offered to SCAP. During the year, the National Resources Commission, operating independently of the Central Trust, sold 250,000 tons of Hainan Island iron to a British firm for re-export to Japan.

The reopening of Japan to private traders in August 1947 was received unsympathetically, not only for political reasons but also because of a deep-rooted suspicion that Japan will eventually be able to resume her prewar dominance of Far Eastern trade, especially in the field of textiles. Although a small number of Chinese businessmen were selected by municipal guilds and chambers of commerce to visit Japan to reopen trade, only a few had left for Japan.

Since purchases from Japan must be paid for in U. S. dollars, Chinese private traders were able to deal in only a restricted number of commodities, that is, those which could be exchanged under the barter agreement, and were forced to establish a credit with SCAP by exporting before buying for their own account. These regulations greatly restricted private trade with Japan.

Official estimates indicate that illegal trade, between the Chinese mainland, Taiwan, the Ryukyu and Japan, probably reached US\$7 million during 1947. This was attributed to the inevitable tendency of the two countries to trade in spite of restrictions imposed by the Chinese Government and SCAP.

A large increase in the volume of Sino-Japanese trade is essential to the development of a stable Far Eastern economy. However, since the raw materials of Manchuria are available neither to Japan nor to the Chinese Government, the development of a substantial regional trade involving Chinese exports of raw materials and foodstuffs and imports of industrial machinery and consumer goods is improbable. An increased trade also awaits both the settlement of the political issues revealed in China's antipathy to the resurgence of Japan as the source of Asia's manufactured goods and the reestablishment of a relatively stable economy in each country. These conditions could not be met during 1948, and trade between the two countries continues to be both controlled and small in volume.

Developments Of Trade Between Japan And China

Interest for larger imports of China produce, minerals and ores for use in Japanese industries has been revived in recent weeks with the expansion of Communist control in China. Within a few months there will be probably no Kuomintang officials remaining in the whole of China except in a few pockets in the south and on Taiwan. As in the past the ex-regime at Nanking showed no understanding for expansion of Sino-Japanese trade there is now hope in Tokyo that new arrangements, essentially of a barter nature, will be possible to conclude. Rehabilitation of industrial plant, especially in North China and Manchuria, may be most economically aided by Japan which in return would depend for the successful completion of its 5 year reconstruction plan on the supply of Chinese mined coal, ore, salt and a variety of produce. The two major countries in the Far East stand to profit greatly from an interchange of goods as well as men. The new Chinese authorities in Peiping and the Japanese Government have gone on record with statements that development of Sino-Japanese trade is one of the important tasks of their respective administrations.

PRINCIPAL IMPORTS & EXPORTS OF CHINA

(I) PRINCIPAL IMPORTS

Petroleum Products.— Petroleum products constituted the principal group of imports into China during the year 1947, both from the standpoint of volume and value. Imports during 1947 amounted to 2,202,451 metric tons, or an increase of nearly 130 percent over 1936 (considering the last normal trading year). The pattern of trade changed materially since prewar, when kerosene accounted for about 60 percent of imports. Now the leading items are liquid fuel and gasoline, imports of which amounted to 936,000 tons, an increase of about 200 percent over 1936. This increase was due to the enforced conversion of utilities and industries from coal-burning to oil-burning units, because of difficulties in obtaining coal. In addition, Chinese and international shipping companies have acquired new oil-burning vessels, and this also contributed to the increase in the use of liquid fuel. Gasoline imports during the first 10 months of 1947 totaled 496,019.846 liters, representing a 188 percent increase over imports during 1936. This reflected increased consumption by commercial vehicles, requirements of the expanded Chinese air-line services, and military and naval needs. Kerosene imports amounted to 357,580,000 liters, a decline of 40 percent from 1936. Kerosene was still in great demand, but imports were held to a minimum by the difficulties in obtaining exchange for this commodity. Before the war, kerosene was used largely for lighting; its principal uses now are for cooking, heating, and industrial purposes. Consumption of lubricating oil and lubricating grease did not increase in proportion to that of liquid fuel and gasoline, imports in 1947 being very little above the 1936 level. The increased use of these products by automotive and mechanized equipment, primarily military, was offset by a decrease in consumption by industries which were not put back into full operation since the war. The demand for petroleum products in China for 1948 exceeds the amount of exchange which the Chinese Government supply. During 1947, Government provided exchange US\$50,000,000 for petroleum products under quota, and contracted for additional US\$45,000,000 for military and Government use, of which US\$30,000,000 was paid for and delivered by end of January 1948. The value of 1936 imports of the five leading petroleum products was US\$26,000,000. It does not appear that the demand for imports of petroleum products can be reduced, since China cannot hope, even with foreign assistance, to produce sufficient oil during the next few years to supply more than a small fraction of her requirements. The immediate outlook for the foreign oil supplier will be favorable.

Tobacco.—In the 5 years of relative peace enjoyed by China prior to the Japanese invasion total imports of leaf tobacco

averaged 49 million pounds annually; however, imports during 1947 amounted to 55 million pounds, of which 97 percent came from United States, despite an increase in tobacco prices of three to four times over prewar levels. Notwithstanding this high level of imports, tobacco continued in short supply during the year. China has long been the principal outlet for grades of American flue-cured leaf tobacco not used in American cigarettes. Elaborate plans have been developed for increasing the production of leaf tobacco in Honan Province, but disturbances arising from the civil war have interfered with the realization of these objectives. Imports of leaf tobacco during 1947 were permitted under four quarterly quotas extending from February 1947 to January 1948, amounting to US\$8 million, US\$8 million, and US\$5 million, and US\$5 million respectively. However, the last quarterly amount was cut by an amount of US\$300,000 to be used for additional quantities of cigarette paper, which was in especially short supply. 1948 imports of leaf tobacco were lower owing to the lack of foreign exchange. The supply of China-grown flue-cured leaf tobacco which will be available to the cigarette manufacturing industry, third in importance in China's modern industries, is uncertain on account of the civil war. Some flue-cured leaf tobacco from the 1947 Yunnan Province crop has been airlifted to Shanghai, some 1,200 miles away, but production is very small. China will remain dependent upon the United States for flue-cured tobacco for some time.

Motor vehicles.—Importers of trucks and automobiles and motor vehicle parts were subjected to more trade restrictions during 1947 than any other group of businessmen. The prohibition of truck imports, in effect during most of 1946, continued throughout 1947, although 1,200 units already paid for were admitted. No import quota was allowed for passenger cars during the first quarter of 1947, but the Export-import Board agreed to permit entry of 500 such cars during each of the subsequent three quarters provided they had already been paid for with money in the United States or other source prior to February 17, 1947, and that 50 percent of the cars were sold to public transportation or utilities companies. In July 1947, an individual was prohibited from bringing an automobile into China unless it had been registered in his name in his own country 6 months prior to his departure. This measure curtailed sales by China dealers for delivery at the factory. In October 1947, motor vehicles could not be transferred from one owner to another, which practically abolished the used-car trade. On December 14, importation of passenger cars after January 1, 1948, was to be prohibited except for those en route before February 1, 1948. Despite import prohibition, the truck market was flooded, owing to UNRRA imports and the arrival

of some of the estimated 45,000 vehicles acquired by Chinese Government as surplus property and as a carry-over from Lend-Lease. Many of the latter were sold by Government to private organizations. Most of the 4,261 trucks reported as commercial imports during the first 10 months of 1947 were vehicles already in China, which were sold as surplus property to individuals, who then were required to go through the formality of importing them through customs. Customs statistics show 3,654 passenger cars imported into China during first 10 months of 1947, of which 2,836 came from United States. Most of these were imported by persons coming to China to take up residence, but 50 percent are estimated to have been sold immediately on arrival, thus offering competition to dealers, who, unlike individuals, were subject to restrictions as to price and as to the type of customer permitted to buy. In spite of an acute shortage of parts and accessories needed to keep old cars running, the Export-Import Board issued licenses for only an insignificant quantity of such imports as compared with requirements. Service stations had to use parts and accessories manufactured locally or those imported via Hong-kong or obtained, often by illegal means, from wartime stocks or from stolen cars.

The outlook for 1949 is dismal as importers and dealers have only the used-car trade (if registration restrictions were relaxed), and income from servicing.

Motion pictures.—The 1947 quota for motion pictures allocated 26,884 meters of film to each of the major American distributors, which was sufficient to permit the import of about 30 features, plus extra prints of their most popular offerings and supplementary shorts. The inability of the distributors to remit earnings from the exhibition of their films, the refusal of the price control authorities to permit admission

charges to rise in accordance with price increases in other goods and services, and high taxes hindered the motion picture industry during the year, and no relief is possible in 1949.

Paper and woodpulp.—Imports of paper and woodpulp, which had been in excess of US\$33.6 million in 1946, were reduced to US\$17 million under the quota allocations from February 1947 to January 1948. Domestic production, while aided by the reduced competition of the lower-priced imported papers, could not make up the deficit, and shortages existed in all lines, particularly newsprint and cigarette paper. Efforts to increase domestic production were limited by the lack of power and of woodpulp which, outside of Taiwan, is unavailable in China. Despite the handicaps to domestic industry, the prospects for a substantial increase in imports of paper are not favorable, as imports were expected to be held to a minimum in order to conserve China's holdings of foreign exchange.

Chemicals, dyestuffs, and pharmaceuticals.—Imports and domestic production of chemicals, dyestuffs, and pharmaceuticals were short of China's requirements, a situation which retarded industry and stimulated commodity speculation. Pharmaceutical imports suffered most drastic reduction, which was attributed to large (US\$30 million) shipments of this group of items and medical equipment by UNRRA, and the importation, partly speculative, of medicines in excess of US\$14.5 million during 1946. The import quota for pharmaceutical products from February 1947 through January 1948 was reduced to US\$1.8 million, more than 80 percent of which was limited to pharmaceuticals for use in domestic industries. Chemical imports, which amounted to US\$19.8 million in 1946, were reduced to US\$9.8 million for the year ended January 1948. Imports of dyestuffs permitted during the same period amounted to US\$9.1 million, as against US\$15.7 million in 1946. Serious shortages were also evident in supplies of chemical fertilizers and alkalies. 70 percent of the postwar consumption of fine and industrial chemicals was concentrated in the Shanghai area, a condition likely to prevail. Shanghai has 76 chemical raw materials plants, 91 pharmaceutical factories, and more than 1,400 factories consuming chemical products. Most of these factories operate on a part-time schedule, owing to shortages of materials.

Leather.—Owing to the declining value of Chinese currency and high prices in producing countries, imports of leather into China during 1947 were insignificant, and importers found difficulty in disposing of stocks acquired in 1946, when imports were already small in comparison with those of prewar. Imports of sole and upper leather during 1947 amounted to 939,482 kilograms, or about one-fourth of 1946; calf and kid imports 7,012 kilograms, one-third of 1946. The demand for patent leather, which greatly diminished in 1946 because of plastic substitutes, was practically nil. Owing to world shortages of leather and resultant high prices, importers saw little likelihood of trade improvement in future. Manufacturers show little interest in the China market although old customers are supplied and enough exported to keep trademarks from being forgotten.

Raw Cotton.—Import restrictions held commercial imports of raw cotton to about 370,000 bales valued at US\$55,000,000. In addition, some 340,000 bales were brought in by UNRRA and about 50,000 bales were obtained from India through a barter agreement, making a total of 760,000 bales of cotton imported during 1947, as compared with 1,600,000 bales during 1946, of which 1,275,000 bales were imported commercially and 325,000 supplied by UNRRA.

Imports of cotton varied from 100,000 to 1,000,000 bales in prewar years, depending upon China's domestic crop, therefore making it difficult to fix upon a "normal" annual import figure. It is believed that the average was

600,000 bales; but the industry and consumption were larger in prewar years than at present. At present stocks are critically low, and domestic deliveries very slow. In order to keep the mills operating, at least 800,000 bales of cotton would have to be imported.

(II) PRINCIPAL EXPORTS

Tung oil.—Foreign demand for tung oil was one of the few encouraging factors in the export situation during 1947. Exports directly from Shanghai and through Hongkong totaled 73,654 long tons, with the following percentage distribution by destination: United States, 66.2; continental Europe, 15.5; Britain, 10.7; Soviet Union, 4.2; and other countries, 3.4. Owing to the required surrender of foreign exchange at the official rate arising from all exports from China, a substantial amount of exports, which normally would have been shipped from Shanghai, were shipped from Hongkong, where exporters could keep all or 75 percent of the exchange, depending upon the commodity, created by the export. This was especially true in the case of tung oil, of which Hongkong exported 33,687 long tons, although the region normally served by this colony produced about 20,000 tons, while Shanghai exported 39,967 tons. A substantial, perhaps a major portion of tung oil shipped to the United States was on consignment basis. With demand for tung oil still large, and the price at a lower level than the prices of dehydrated castor oil and linseed oil, its two principal competitors, production and exports were expected to continue at usual levels.

Raw silk, and silk and rayon textiles.—The raw silk industry failed to show signs of improvement in 1947. Plans for expanding production and exports were without effect. The low state of the industry was attributed to the resurgence of Japanese production and to drastic drop in world price of silk. Production in 1947 estimated to be less than in 1946, which was estimated at 25,000 to 30,000 bales of 133-1/3 pounds. Exports for the year were 8,000 bales compared with 14,000 bales in 1946 and an immediate prewar average of 60,000 bales. The silk and rayon piecegoods industry was beset with lack of raw supplies and inordinate costs of production. Outmoded weaving machinery was not replaced, and production did not show any improvement over 1946. Efforts were made to increase imports of rayon, mainly by barter with Japan, for weaving in mixture with silk. While exports of piecegoods to India and southeast Asia showed a marked increase over 1946, with shipments approximating 20,000 pieces, part of exports to India were bartered for Indian raw cotton.

Bristles.—Exports of bristles in 1947 were estimated at 8.5 million pounds, of which 6 million pounds were shipped to the United States. The amount shipped approximated the 1938-40 average but was 21 percent below the 10.5 million pounds in 1946. The total, however, included large amounts which had been hoarded during the war years. Although old stocks were still being

hoarded, they constitute a much less important factor in exports during 1948 and this factor, together with the fact that many rural areas and channels of communication were disrupted because of the civil war, indicate that exports in 1949 will be less. The United States was the largest purchaser of bristles during 1947, taking two-thirds of total exports, while Britain was next with one-fourth of the total. Shanghai and Tientsin shared equally in exports, together accounting for 90 percent of total shipments. Throughout the year dealers operated on a close profit margin. Local production costs, when converted into foreign currencies at official exchange rates, were higher than world market prices, and most business was done in the several periods following upward adjustments in the official rate. A large volume of bristle exports was handled by the Central Trust of China. The difficulties which arose in 1946 with regard to packing of bristles continued throughout 1947, and Chinese governmental inspection bureaus were ineffective in improving this situation. Although these difficulties were occasioned by inexperienced packers in China, they were encouraged to some extent by the tendency of some purchasers to order on the basis of price, without giving adequate consideration to the reputation of the exporter for shipping up-to-standard goods.

Antimony, tungsten, and tin.—In the last 3 prewar years China accounted for some 50 percent of world production of antimony and in the last 10 prewar years, for 40 percent of world production of tungsten; however, China is somewhat less important as a producer of tin, production in 1938 amounting to 8,000 metric tons although this increased by more than 50 percent in 1940. Notwithstanding that the producing areas of these metals and minerals are farthest removed from the present military activity, postwar production has been hampered by high costs. Thus, exports in 1947, were as follows (in metric tons): Antimony, 8,991; tin, 4,115; and tungsten, 6,109. Most of these exports were shipped to various governments.

Tea.—Exports of tea from China in 1947 amounted to over 35 million pounds, valued at US\$8 million, as compared with shipments of 15 million pounds, valued US\$5 million, in 1946. Even though the 1947 figure was more than double that of 1946, it was very low in comparison with 1936, when exports amounted to over 82 million pounds. Until prices were reduced and standardization effected, which did not appear likely, exports of tea would be hampered. Several foreign houses who were prominent tea exporters in prewar years have made few shipments during 1946/48 and a few firms closed their tea departments until more favourable export conditions become available.

Skins and furs.—Owing to the lack of an export market during war years, many wild animals in China, such as weasel, raccoon, marmot, and fox, were allowed to multiply, with the result that the availability of skins and furs was larger in 1947 than for several years. The current military situation, together with the foreign exchange rate applicable to exports, made the export

of these items difficult. Exports of hides and skins amounted to 3,431 metric tons in 1947, an increase of 39 percent above 1946 but 80 percent below 1936. Statistics obtained from consular invoices prepared in the American Consulates of Shanghai, Tientsin, and Hongkong show that shipments of furs to the United States from these three ports were valued at US\$2.6 million in 1947. The trade in raw and dressed furs was influenced by the breaks in the American fur market which in turn was partly due to the dumping of large quantities of North China furs in the New York market. Exports during 1947 were further handicapped by the official open market rate, which frequently made exports impossible. Owing to the disruption of rail transport large quantities of Shantung (Tsinling) furs which normally would have been handled at Tientsin were sent to Shanghai for export; however, Manchurian kolinski which prior to 1937 were normally shipped from Dairen, were exported from Tientsin. Exports of furs and of hides and skins will depend upon world prices for these commodities, as well as a foreign exchange determining the rate at which exports of China's products can take place.

Prospects of China's Foreign Trade

China's foreign trade gives little reason for optimism regarding its immediate future. Although a reduction in the import excess has been effected, imports were cut at the expense of industry, with those dependent upon imported raw materials unable to produce on account of a lack of essential supplies. At the same time, the expansion of exports is accomplished by having the greater portion of business negotiated by the Chinese Government itself rather than by private traders, with most tung oil shipments representing consignment rather than cash transactions; while piecegoods exports to the Middle East in exchange for Indian raw cotton represented barter rather than actual export trade. The Central Government forced to exercise a great amount of control over foreign trade, it must endeavour, because of abnormal postwar demand for foreign products, to balance a persistent deficit in its balance of international payments. China today is caught in a vicious cycle of material shortages, reduced production, dislocated communications, and spiraling prices. The administration of trade controls directed at remedying the situation frequently delayed the granting of import licenses even for goods officially acknowledged as essential to the country's economy; while incentive to export is adversely conditioned by a policy which emphasizes additions to the Government's holding of foreign exchange, rather than the development of trade. With the exporter in China obliged to sell his goods abroad for U.S. dollars, which he has to surrender in toto to the Government at unrealistic official rates, the profit motive is virtually disallowed, making for a situation incompatible with the expansion of the country's purchasing power through exports. In addition, currency regulations constitute a ma-

The Industrial Position of China

The postwar industrial life of China has been conditioned to an overwhelming extent by the progress of the civil war. Producing centers have been isolated from their usual markets and sources of vital raw materials; those in the north suffered most, while those in the south fared somewhat better. These conditions resulted in the failure of China to capitalize on her golden postwar opportunity for industrial growth and cultivation of export markets in the Far East at a time when competition from nearby countries has been reduced to a historic minimum.

Transportation, suffering from the concerted drive by the Communists to disrupt it completely, is now at its lowest ebb in many years. Coal production, with most of the large producing centres located in the north and northeast, is hard hit; much of the limited amount of coal being mined could not be transported to consuming areas. With the exception of Taiwan, power is everywhere insufficient to meet demand. Industrial raw materials, the large majority of which must be imported, penetrates with difficulty a web of import restrictions to reach end users only in an unsteady trickle. High costs of manufacture virtually price producers out of export markets, and domestic consumer demand is curtailed both by inaccessibility of merchandise and inflation-cut buying power. The National Resources Commission, charged with the administration of most of the country's basic industry, is beset by problems of finance, decisions arising from the logistics of shifting battle areas, and the demands of personnel occasioned by the conduct of the civil war.

The contributions by UNRRA to China's industrial rehabilitation have been appreciable, and results were expected to be more apparent as time passed. Certain regions in the south recorded industrial gains. The country's international telecommunications system had been partially restored. Well-laid plans are under way for increasing over-all power-generating capacity. There was, to some extent, a resurgence of industrial activity in the south and in Taiwan, both areas removed from the zones of combat. Yet China moved little, if any, closer towards her goal of industrialization in the western sense. She still needs foreign capital, foreign technical skills, and foreign raw materials, all in huge amounts. But, as a necessary preliminary, she needs a condition of political stability; and, the possibility of realizing this condition appears more remote than at any other time in the postwar period.

Fuel and Power

Fuel.—Official estimates place the 1946 coal production for all China at 11.5 million tons, with possibly an additional 2 million tons produced by

for handicap to foreign investment. Therefore, until exports can be promoted and foreign investment encouraged, or loans successfully negotiated, there will be but little foreign exchange available for imports.

small individually operated pits. Production in 1947 was estimated at nearly 15 million metric tons or about 75 percent of the expected amount. Much of the coal mined, however, could not be transported to consuming areas, with the result that coal shortages of varying degrees of intensity were evident through all the industrial centres of China. To supplement domestic production, it was decided to import coal; but such imports probably did not exceed 100,000 tons. Thus, production in 1947 was nearly 29 percent greater than in 1946, but only about 37 percent of the total production (including Manchuria and Taiwan) achieved in 1936. Contribution by UNRRA of US\$ 12 million of coal-mining equipment and power and machine tools has added some 4 million tons to the Nation's 1947 coal production; but in addition to this assistance, huge additional outlays of capital will be required to raise coal production above its present low levels.

Although under allocation by a Fuel Oil Allocations Committee, the supply of liquid fuels continued tight throughout 1947, and industry was forced into the black market to supplement the remainder of its requirements. As a result of insufficient foreign exchange supply—nearly all of China's liquid fuels must be imported—the Fuel Oil Allocations Committee sought to limit conversion from coal to oil consumption. The Shanghai Power Company, the largest single consumer of fuel oil in China, converted additional facilities to oil, and now burns 30,000 tons monthly, or roughly 80 percent of its total BTU consumption.

The crude capacity of China's refineries, including Taiwan, is probably not more than 10,000 barrels a day; and production was hampered by lack of sufficient amounts of crude oil to maintain even this capacity. China has to rely heavily on imports of liquid fuels.

Power.—The universal shortage of electric power is the chief deterrent to increased industrial production throughout the country. Although UNRRA contributed 60,000 kw. of generating capacity, requests for equipment amounted to more than 400,000 kw. No estimate is possible as to what percentage of the 1,600,000-kw. capacity of Manchuria still remained effective, but it is known that much was destroyed or transported elsewhere. Transmission lines in the region were extensively damaged, further reducing the available supplies of power. The pre-war capacity of 13 principal cities located south of the Great Wall amounted to 577,600 kw. Of this, the present installed capacity amounted to 552,110 kw., but the effective capacity was 417,090 kw., or 67 percent of the prewar level. Municipalities, large utilities companies, and the Central authorities bend every effort to obtain power equipment abroad, but inability to get delivery in less than 3 years and shortages of foreign exchange delayed the implementation of this much-needed program.

Raw Materials & Primary Production

Industrial chemicals, primary steel products, copper and other non-ferrous metals, industrial electrical equipment, and bearings are only a few of the items which are in short supply since VJ-day. Domestic production of primary components is extremely limited and the country continued to rely heavily on imports for its supplies. Much ingenuity and extemporizing enabled industry to bridge some gaps, but were not sufficient to overcome more than a small number of difficulties. Primary steel production in Shanghai is not more than a few hundred tons of pig iron and less than 1,000 tons of ingot steel monthly, whereas minimum monthly requirements of the fabricating plants estimated at 1,500 tons of pig iron and 6,000 tons of steel. The discrepancy is made up by the widespread use of plate cutting, etc., in a re-heat, re-roll process. Production at the Arishan Steel Works in Manchuria, China's largest, is limited and distribution of its products almost impossible except inside Communist areas. Negotiations with large foreign interests in the field of electrical manufacturing did not progress. Motors, transformers, switch gear, etc., are at a premium. Shanghai, for example, produces probably not more than 1,500 motor units monthly; production of electrolytic copper under 50 tons a month, and a like amount of copper and brass strip and sheet is rolled. Aluminum ingots, for which China's requirements are estimated at 8,000 tons annually, are obtained from abroad, pending resumption of activities in Taiwan.

Cotton Textile Industry

China's imports of raw cotton were restricted in 1947, owing to the country's dwindling reserves of foreign exchange; the result was that the rehabilitation and installations of textile machinery, which has taken place in 1946 when imports of cotton were large, were suspended. Cotton purchases in 1946 valued at US\$200,000,000, including US\$33,000,000 which was secured on loan from the United States. The severe foreign exchange regulations of February 18, 1947, brought these imports under strict control, and US\$6,000,000 was allotted for imports of cotton during the remainder of the year. Total imports in 1947 were 760,000 bales, compared with 1,500,000 bales from November 1945 through December 1946. Of the amount imported in 1947, about 350 bales were brought in through commercial channels; UNRRA imports amounted to 340,000 bales, completing a program which brought in a total of 665,000 bales since November 1945; 20,000 bales were taken over by the Government from private importers who had landed cargo without licenses; and perhaps an additional 50,000 bales were obtained through barter agreements with India. In order to make the best possible use of the smaller amounts of cotton imported, the Government established in 1947 regulations setting ceiling prices on yarn and cloth sales, restricting the exportation of textile goods, and requiring the registration of yarn and cloth stocks.

The portion of the 1946 domestic crop reaching mills was far smaller than had been expected. Similarly, the 1947 crops reached mills only in limited quantities, as a result of civil strife and the general break-down of communications throughout China, and the inability of the financial system to provide sufficient currency in rural areas to make cash purchases from farmers, who preferred to dispose of surplus raw commodities for noncash items.

Installed spindlage in China estimated at 4,500,000, but standing operable spindlage remained throughout 1947 at about the figure which had been reached at the end of 1946. Because of power shortages, break-down of machinery, and labour troubles, actual operation during 1947 was maintained at a level of 3,000,000 spindles, most of which operated 20 hours a day. The ownership of the standing spindlage was distributed as follows: China Textile Industry, Inc., 1,768,000; privately owned, 1,849,000; and unidentified, 225,000. The corresponding figures for operating spindles were: China Textile Industry, Inc., 1,183,000; privately owned, 1,584,000; and unidentified, 225,000.

A cotton textile conference, held in Shanghai in September 1947, reiterated plans which had been drawn up at the end of the war, calling for an expansion to 8,000,000 spindles; the year 1947, however, witnessed the installation of not more than 200,000 spindles, and the modernization of several more. A corresponding number of old spindles went out of operation because of deterioration and lack of spare parts. Of the great amount of equipment which had been on order, including about 2,500,000 spindles, much was sold or placed in storage abroad. A few mill owners diverted new machinery to Hongkong, where a textile industry was flourishing.

In 1946, commercial mill production amounted to 1,100,000 bales of 400 pounds of cotton yarn, and 1,330,000,000 yards of piecegoods; in 1947, the production totaled 1,875,000 bales of yarn and 1,650,000,000 yards of piecegoods.

Regional Conditions in Industry

Shanghai.—Shanghai has the heaviest concentration of industry in China, since it possessed about 55 percent of the country's factories, 50 percent of its cotton spindles, and 80 percent of its woollen spindles, and has accounted for 42 percent of the total electric power consumption. Industrially, this city has not fared too badly since the ending of World War II. The general index of industrial power consumption rose steadily in 1947. Using the monthly average of consumption in 1940 as a base, the consumption at the beginning of 1947 was 71.8 percent of the quantity consumed in the base period; by November 1947 it had risen to 100.3 percent of the 1940 average, and was held at that level only by limitations on additional supplies, especially power. Coal supplies, although short at various times during the year, were sufficient for all essential uses. Raw materials could be had for the most part, although recourse was often made to the black market. Industrial employment was high, but not enough to absorb the heavy influx of refugees from the war

zones. Moreover, Shanghai served a community which was practically isolated from the rest of the country, and even if stability could be achieved and trade with other consuming centres revived, its output would be inadequate to meet the demands of a national market.

Tsingtao.—In contrast to Shanghai, Tsingtao witnessed a steady decline in industrial activity. With the city encircled by the Communists, industry was cut off from supplies of fuel and raw materials, and operations were limited largely to Chinese Government operation of former Japanese-owned plants, including cotton mills, a tobacco leaf re-drying plant, a rubber products plant, flour mills. Communications were greatly restricted after the port was closed to foreign shipping in April 1947. Chinese coastwise shipping is inadequate, expensive, and unreliable; and the Kiao-Tsi railroad, linking Tsingtao with Tsinan, the capital of Shantung, was inoperative since February 1947. Military operations made any serious efforts to rehabilitate Shantung's highways impossible.

Tientsin.—As at Tsingtao, the civil war isolates this area from materials and markets. Power remains short, as additions to generating capacity are nullified by damage to others, principally to the large installations at Tatung, and at Chengteh in Jehol. Kailan coal production exceeded 4.5 million tons in 1947. Elsewhere in North China, small-scale coal mining continues. Construction on the Tangku new harbour project proceeded during 1947, including work on a new drydock, warehouses, machine shops and railroad sidings. However, the volume of bulk materials, such as iron ore, coal, and salt, on which the profitable operation of the port depends, was lacking. Commercial construction was negligible, owing mainly to material shortages and the cost of skilled labour. Flour milling dropped from 1,127,000 bags in 1946 to an annual rate of some 840,000 bags in 1947, owing to lack of power and an insufficient supply of indigenous wheat. Cement production of the large Chee Hsin Works rose to 161,000 tons in 1947, an increase of 30 percent over 1946.

Hankow.—The Hankow area, up to early autumn 1947, achieved some degree of industrial progress and was laying plans for further recovery. At that time, however, large Communist forces worked west from Shantung and established themselves in the hills north of Hankow and were able to disrupt the economic life of virtually all of Honan and much of Hupeh Provinces, hitting hard at all transport facilities. Output of flour mills held for months at about 12,000 bags per day, but plans for expansion had to be held in abeyance because of insufficient supplies of wheat and lack of transportation. An UNRRA-supplied flat glass plant was being installed at Wuchang in late 1947 with an estimated production of 20 million square feet of window glass for 1948. The 1,000-ton per day cement plant of the Hwa Shin Cement Company was expected to be in operation in early 1948 but plans for a large steel mill, which was to be established in Tayeh, had to be suspended when the foreign loan did not

materialize. A shortage of electric power developed, as the estimated effective generating capacity of 16,000 kw. (for Hankow and Hanyang) was something under half of potential demand.

Kunming.—Industrialists in the Yunnan area faced, on the whole, a brighter picture than those in coastal regions. It appeared that, given an improvement in conditions in Indo-China, Yunnan, removed as it was from the scene of combat, would forge forward. Some activity was reported in building construction, principally as an inflationary hedge. Kuchiu tin production for 1947 was reported at more than 2,000 tons of refined, but lack of transportation kept much of it from the market. Interest revived in transporting tin eastward over devious land and water routes and a contract was signed for the airlift of 250 tons monthly from Mengtse to Liuchow, thence by water to Canton. Production of wolfram, antimony, and other nonferrous metals was negligible. Output of the steel mill at Kunming was at one-third of capacity, or 100 tons a month of steel products, mainly reinforcing bars. Flour milling and chemicals manufacture, including carbide, lime, and soap, were active and at satisfactory volume levels. Cement output was high and adequate to meet local demand. Cigarette manufacturing averaged 500 cases monthly.

Chungking.—Industry fared satisfactorily on the whole. Coal production for Szechwan averaged 200,000 tons monthly and could have been increased but for the fact that there was no further market locally, and lack of transportation made it impossible to ship to other consuming areas. Production of the five largest flour mills in Chungking average 5,000 bags daily. Power was short throughout the year with no immediate prospects for relief; effective capacity of 10,000 kw. represented no more than one-third of an estimated 20,000 kw. of demand, and the limited amount of power available was reduced by pirating of possibly 30 percent of that produced.

Taiwan (Formosa).—The island occupied the China industrial spotlight, not so much because of results achieved but because of the potentialities offered. Notwithstanding expectations of a high rate of industrial activity from this formerly Japanese-administered island, the general level of Taiwan's industry recovered only to 20 to 30 percent of the prewar rate by the end of 1947. Emphasis was placed chiefly on the rehabilitation of the sugar, cement, petroleum, and fertilizer industries. Power, in contrast to that in China's other industrial centres, was in surplus and was expected to continue so until the resumption of the alumina and aluminum industries late in 1948. Of an originally installed 322,000 kw., (both hydro and thermo, eastern and western system combined) there was available an effective capacity of some 200,000 kw., well in excess of any peak load achieved since VJ-day. Production of coal was considered adequate for domestic needs and during 1947 provided an exportable surplus of nearly 50,000 tons monthly to Canton and

Transportation and Communications of China

Transportation, suffering as the result of the civil war is now at its lowest level of operation since the war. Lines of communication between the principal cities, and between the sources of raw materials and the industrial areas are largely destroyed.

Railroads

Of China's 35 Provinces, 8 are completely devoid of any railway transportation facilities. Almost four-fifths of China's existing railway mileage is located in coastal areas. The total mileage of China's rail lines immediately after VJ-day, including those in Taiwan, Hainan, and Manchuria, was 18,757. The line in Manchuria alone accounted for 7,024 miles of the total. Approximately 1,000 miles of lines have been destroyed, of the total rail lines remaining in Chinese Government hands, less than 8,500 miles are in operation. The Chinese Government was desirous of rebuilding, modernizing, and developing railroads as a means of large-scale movement of freight and passengers within the country. During 1947, the effort expended by the Government toward restoring lines north of the Yangtze River and in Manchuria was negated by a lack of rails, ties, material, and bridge equipment, and by the inability of the military to guarantee protection to lines in operation. The 1947 history of practically all of the rail lines in north China has been one of sporadic operation. The pattern has been one of continual destruction and sabotage and the Chinese Government declared that it has no intention of reconstructing any of the lines destroyed, because of lack of assurance that the military can hold the area.

The situation in non-war areas was not as bleak. The roadbed, repair facilities, and equipment of the Nanking-Shanghai Railway improved, while the line extending from Shanghai into Chekiang and Kiangi was opened as far as Shangjiao (Kiangsi) and rails laid to Nanchang. Traffic cannot be resumed to Nanchang, however, until bridge equipment arrives. Work on restoration westward into Hunan and Kweichow Provinces progressed, with the roadbed from Nanchang to Changsha prepared for ties and rails, which, however, were allocated to Manchuria. Line-extension, as distinct from line-restoration, is under consideration. Although no construction work is contemplated, preliminary survey work has been completed to connect Hankow with Chungking so as to avoid the isolation of upriver areas during periods of low water on the Yangtze. Preparatory work on sections of the Great Northwestern Railway to connect Tien-shui (western railhead of the Lunghai)

Shanghai. The industrial problem in Taiwan is principally that of fitting for Chinese use a semi-colonial economic pattern expressly designed to supplement and serve the economic structure of Japan. As is the case on the mainland, lack of funds for capital equipment has seriously retarded industrial recovery and advancement.

with Tihwa, Sinkiang, was pushed. However, 1948 saw the slowing up of tunnel preparation, earth-cutting, and formation work because of lack of materials and insufficient appropriations. Preparation of roadbed and construction of concrete and stone bridge structures proceeded apace on the much-publicized Chungking-Chengtu railroad in Szechuan Province, with work under the French Syndicate, reportedly financing the project, held up by foreign exchange difficulties. Little activity other than maintenance was on the railroad lines in the Kunming area, while no proposal regarding the reconstruction of small, privately owned lines in Kwangtung, Kwangsi, and Fukien was publicized. Lines in Taiwan continued operation under Government supervision. One-third of the Hainan line was inoperative.

Highways

Of a total of 81,000 miles of highway in China today, only about 44,000 miles are usable and in operation. In almost all cases, roads are poorly constructed of water-bound macadam and subject to quick erosion. This is especially true in the mountainous regions which a large percentage of the roads traversed. Destruction of rail lines necessitates the restoration and development of important highways if China is to maintain her communications system, profit from her rich resources, and develop industrially. The National Highway Administration is making efforts to repair the damages caused by the wars and by lack of maintenance, and has several thousand miles of roads under construction.

Inadequate maintenance, serious landslides, and slipping roadbeds have caused the China section of the Burma Road to be impassable in many places. Observers feared its total obstruction from natural causes by the end of 1948. Marked deterioration of heavily travelled highways, such as the Chungking-Chengtu highway in Szechuan, has been observed.

In the area which was formerly the main combat zone of Sino-Japanese war, only about 13,000 miles of a total of 49,000 miles of roads had been restored by the end of 1948; the extent of this area was several hundred miles in width, and stretched from Loyang south to Kweilin and Nanning. Even the highways in this area which were restored were passable for motor vehicles in good weather. Restoration has been delayed because of the civil war, the economic instability of China, and her inability to obtain all of the necessary materials for repair.

Mineral resources lay undeveloped and agricultural products were immobilized in many sectors of the critical area of east China south of the Yangtze River, primarily because the roads were in very poor condition through years of neglect. The four good seaports of Wenchow, Foochow, Amoy, and Swatow, remain isolated from inland towns and cities because existing roads are suitable only for carts and man-packing, and because no rail connections exist.

Shipping

By December 1947 China had a total marine tonnage of 951,826—consisting of 3,317 ships—as compared with a total prewar tonnage of 576,00 and a total of 80,000 tons immediately after VJ-day. About 50 percent of the tonnage was owned by the China Merchants' Steam Navigation Company. Coastal shipping has been curtailed on account of Communist activity in the north and the consequent closing of many coastal ports. There has, however, been a continued development of inland navigation, particularly in the southwestern Provinces. Improvements have been made on river channels, and new navigation lines opened. 80 percent of the freight moved within China is carried by river boats. By the end of 1947 the problem of port congestion (particularly at Shanghai, which handled between 85 and 90 percent of the ocean-borne freight entering and leaving China) had been practically eliminated.

It is the desire of the National Government that China's shipping facilities should become developed and operated by Chinese only. Commercial shippers in China, especially foreign shipping, suffer adverse conditions, attributable to restrictive trade regulations, exchange controls, high freight tariffs for transport of export cargo from the interior, military commandeering of coastal and river steamers, and exorbitantly high charges for handling cargo at coastal ports. Foreign shipping interests expect further disappointment in the failure of the resumption of large-scale shipping to and from Chinese ports; and until trade and currency restrictions are radically liberalized, there could be little, if any, improvement of present conditions. Chinese shipping may look forward to expansion of operations on coastal and inland waters, but there might ultimately be a dearth of cargo in relation to the tonnage increase in the country's merchant fleet, the full impact of which might not be felt for 3 to 5 years hence.

Aviation

By reason of its size and the inadequacy of other transport facilities, China constitutes a natural area for the development of civil aviation. In 1947, the two chartered commercial air lines operating in China were China National Aviation Corporation and Central Air Transport Corporation, which, when combined, had only 83 planes, but serviced 32 of China's principal cities in their lists of scheduled stops. Both lines suffered continually from a lack of spare parts and fuel shortages in addition to inadequate landing and hangar facilities. A centralized administration of all phases of transportation, and communication was concentrated in the Ministry of Communications, which was responsible for all phases of communication including air travel and transport.

There is no joint ownership of shipping and air interests, but given peaceful conditions and a greater need for the expansion of air lines, Government would, in principle, permit Chinese shipping interests to operate air carriers under strong Government influence and control.

PRESENT TRADING WITH MANCHURIA

(By Dr. S. L. Ku)

(1) BRIEF COMMERCIAL SURVEY

Since fall of 1948, the Manchurian Authorities have opened trade with the outside world in form of barter. It began with Russia, and Manchuria supplied bristles to Russia in exchange for Russian Beet-sugar. Soon traders from North and South Korea followed suit; they had hired junks and launches and were shipping chemicals, rubber sheets etc. to the port of Antung in exchange for bristles, beans, edible oils, pongee silks etc. These goods, on arriving at the South Korean port of Inchong were transhipped to Hongkong and the traders made a very big profit thereby. Then some adventurers in Hongkong started the transaction on a bigger scale and dispatched a ship of about 1000 tons with a load of Rubber smoke sheets, quebrachos, diesel and lubricating oils etc. to Antung and bartered bristles, soya beans, edible oils. Taking advantage of the generosity and being not well informed about the Hongkong market on the side of the Manchurian Authority this first ship had grossed a profit of a few hundred per cent.

This was more than sufficient inducement for the others to follow suit, and that did happen, and during November 1948, there were four ships from Hongkong anchoring outside the Antung harbour anxiously waiting for the fortunes to be carried back to Hongkong.

The writer happened to be representing the interest of some parcels of goods on one of these ships and being a student of economic affairs and exporter of Chinese produce, particularly bristles, he had made use of

International air treaties had been signed with the United Kingdom, Holland, Siam, the United States, and France; and a temporary agreement had been signed with the Philippines.

Communications

Telecommunication service continues to centre on the telegraph; but the country as a whole had been forced to rely more on the use of the radiophone, owing to the disruption of other services resulting from civil-war destruction. In the field of radio broadcasting, the policy of excluding foreign capital continues and the broadcast of English-language programs is restricted. In July 1947 radiophone service between Shanghai and the United States was re-established. The traffic, especially east-bound, was heavy. Radiophone service has in 1948 and early 1949 been established between Shanghai and Manila, Hongkong, and London.

A number of additional radiotelephone circuits were established connecting Shanghai with Batavia, Rio de Janeiro, Buenos Aires, Stockholm, and Oslo. The submarine cable lines which linked Shanghai with world centres before the war has not been restored to service.

his two months' stay in Manchuria to make a few observations of economic conditions. Attention must be drawn to the fact that due to the fragmental nature of the observations the following writing can not be considered as a complete report, but merely notices made on a journey.

Journey to Manchuria

The ships called from Hongkong without any previous arrangement with Manchuria and the shippers consigned the kind of goods at a guess based on pre-war experience in trading with Manchuria and North China generally.

On ship's arrival at destination the representatives of the consigner have to report to the "Overseas Trading Company" which is the official organization with the special charge to promote trade with the outside world. This Authority takes care of the ship and all men and cargo on board of the ship and passes all necessary formalities. All services rendered are free of charge. The men after receipt of a landing permit are allowed to stay ashore, and board and lodging is provided for by the afore-said authority free of charge. In short for merely profit-minded traders the hospitality and service rendered to them are far more than they are deserving.

The goods will be discharged by the members of the staff of the said organisation at the expense of the shipper and import duty will be levied at a rate varying from 5 to 20% according to the kind of the goods and at the assessed value of the goods in gold. However, the shipper must turn the goods to the said company but can apply, on sufficient reasons, for a permit, that a part of his goods may be disposed on the free market.

As base of calculation for all transactions with the said official Company gold (in unit of oz. of metal) will be used and on the free market notes called the "North Eastern Circulation Notes" are in use. There are daily quotations of the Government Bank and at present one oz. of gold is valued 9,000,000 of the notes. Transaction in gold is free.

At the moment traders have delivered the goods to the above Company an account will be opened. The amount in gold at the assessed free ware-house value of goods, deducting import duty and other charges, will be credited to the importer's account.

The same Company will then, on mutual agreement, decide the quantity and kind of the Manchurian products to give in return. The value of these goods is fixed by the Company at ex ware-house basis. An export duty from 5 to 20% is to be paid to the Customs Authority. Just as for the import, the said Company will render all services

free of charge. The Company will then debit the trader's account for the amount of the f.o.b. Manchurian port value of the goods to return to Hongkong. Any balance can be settled either by payment in actual gold or a credit or debit may be left standing.

There are two prices for the one and same commodity, the one is the export price fixed by the said Company and calculated in units of gold weights, the other is the domestic price based on units of paper currency. Generally speaking the export price is much higher than the domestic price. In case traders have secured a permit to sell a part of the goods on the free market, and again with the proceeds of sale (in paper money) have purchased certain goods for export to Hongkong, traders are obliged to report this to the said Company and pay the difference of these two prices. This is justified, first, on fiscal reasons of revenue and secondly, the free market values of imported goods are usually much higher than the barter-value of the government.

The above will serve to illustrate the principles of the barter procedure between Hongkong and Manchuria and it is understood that regulations are subject to modification at any time. The writer wishes to emphasise the fact that the officials in charge in Manchuria are straight minded, not the least corrupted, working effectively, but unexperienced in trade, and recommends, therefore, if is anybody going there for trade, better to be frank and not to try to oversmart the people, for once under suspicion such traders will be damned for all times.

In view of profit-making the said Company is considering to allow shippers to make 25% on the cif value of the consignments. Only, one must be careful in selecting the goods to be shipped, industrial chemicals, cotton, rubber, liquid fuels, tool machines and parts are in great need, and in return one can receive soya beans, edible oil, bean cake, bristles, horse hairs, furs and skins, Chinese medicine and other commodities suitable for export from Hongkong.

A complete plan should be devised specially in regard to the kind and quantity of the goods to be exchanged between these two places in order to balance the surplus and shortage for the benefit of all parties concerned.

(2) THE BRISTLES TRADE

Manchurian, Tientsin and Tsingtao bristles are all known as soft bristles, and the special marks of the Manchurians are that the buds are strong and that the tops are heavily flagged and bearing a reddish shade of color. Besides the black bristles, which are the bulk of the production, there are white, brown and brown boars' bristles.

Black Manchurian bristles are dressed in the same manner like all North China bristles, and also the same way

of assorting and packing. Unlike the dressing of Chungkings, Hankows and Shanghais the raw bristles, after being taken from the hogs, are not undergoing a proper washing and soaking treatment. After the dirt and foreign matter having been removed the bristles in small quantities are bound on bamboo or wooden tablets to place in baskets which are again put into a kind of kiln for steaming and to dry later under sun-shine. Hereafter the usual way of sorting, and clipping will follow. That is the reason why the North China bristles are looking less clean and less brilliant in colour than the other kinds of China bristles. Due to the severe climatic conditions and the fact that, as a rule, hogs are not slaughtered before reaching a live weight of about 360 lbs. the long sized bristles are comparatively abundant and, therefore, the Manchurian and all North China assortments are much longer and consequently much higher in price than the Chungking or Shanghai regular assortments. Among a great deal of assortments the North China bristles are best known on the world market assorted in 55 cases long, 55 cases short, and less popular is the 43 cases assortment.

The following table will show the standard of the above three assortments:

Inches	55 c/s Long Assortment	55 c/s Short Assortment	43 c/s Assortment
2 ¹ / ₂	2	12	-
2 ³ / ₄	3	7	7
3	5	8	8
3 ¹ / ₄	5	7	7
3 ¹ / ₂	5	5	5
3 ³ / ₄	5	4	4
4	5	3	3
4 ¹ / ₂	5	2	2
4 ¹ / ₂	5	2	2
4 ³ / ₄	5	1	1
5	4	1	1
5 ¹ / ₄	3	1	1
5 ¹ / ₂	1	1	1
5 ³ / ₄	1	-	-
6	1	1	1
	55 c/s	55 c/s	43 c/s

The standard packing is 110 lbs. net in a wooden case. The yellow straw string, usually three times around the bottom of the bundles, is included in the nett weight whereas the wrapping paper, naphthaline, the wooden cases etc. make up the tare. Standard of quality is chiefly measured at the percentage of tops. Dressed black bristles should be 80% tops from 2³/₄ inches and up and 70% for 2¹/₂ inches.

To answer the question what is the annual output of the Manchurian bristles can only be done by estimate based on pre-war time experience.

Before the war the centre of the Manchurian bristles trade was the port of Yingchow. At that time the bulk of the South—and part of the North Manchurian raw bristles were concentrated in Yingkow to undergo a primitive treatment, the product was not yet up to export standard and these so-called semi-dressed brist-

les were shipped to Tientsin for a final dressing and than exported from there to the overseas' markets as Tientsin bristles. The Japanese were also active in the business and had established bleaching plants for the white as well as dressing works for the black bristles at various places in Manchuria. These bristles were naturally intended to ship to Japan for domestic use as well as for re-export from Japan. In the extreme Northern areas of Manchuria some raw bristles had also been shipped to Russia and to be dressed as Siberian bristles. During the regime of the Japanese sponsored Manchukuo the bristles had been made a State Monopoly. At present we have no means to trace back to the figures of production and export for these periods.

During the time of struggle between the Kuomintang and Chinese Communist armies the production has been naturally reduced to a very great extent, but figures are also not available. According to rumours large quantities had been smuggled out of Manchuria to Korea and North China ports. The estimation of the pre-war production of the Manchurian bristles differs very widely ranging from 10,000 to 50,000 cases in a year. But now with the steady consolidation of the political and social affairs and the gradual recovery of the people's economy at home it might be safe in saying that Manchuria area whole can produce about 20,000 cases of the semi-dressed bristles, black, white and brown inclusive annually. To turn these half-raw bristles into standard export quality a loss in weight of 25 to 30% must be taken into account, in other words, at present Manchuria can dress about 14,000 cases of standard quality bristles providing sufficient expert labour can be employed locally and from Tientsin.

From the above observation one could draw the conclusion that provided a direct export trade of bristles from Manchuria to the overseas' markets could be facilitated by international agreement through official or private channels, Manchuria should be prepared to offer her 14,000 cases of bristles to trade in the goods of the overseas' markets which are useful for the industrial and economic rehabilitation of Manchuria.

At present the bristles trade is not a State Monopoly, but the bristles are classified under the category of the "State controlled Goods". A more precise definition of this technical term is: Dressing of and dealing in raw and dressed bristles within Manchuria is free to everybody, but export of the same is under control of State. As mentioned previously, in present Manchuria there is one price in units of Gold for export and another domestic price in North-Eastern Banknotes for the one and same kind of goods. Taking for instance one 55 cases short assortment bristle is quoted at 600 oz.

Singapore and Malaya Review

(By Our Own Correspondent)

Political Future.

On January 16 Mr. Malcolm MacDonald, Commissioner-General for the United Kingdom in South East Asia, broadcast to the people of Malaya on the political future of this country in which he stated that self-government for this country would come just as it had come to India, Pakistan, Ceylon and Burma. That address followed soon after Dato Onn bin Ja'afer, President of the United Malay National Organisation and Prime Minister of the State of Johore, had made one of his many references to the termination of British rule in this country. In fact Dato Onn had suggested that the remaining length of British administration might be something between five and ten years. The commercial community immediately assumed that Mr. MacDonald, rightly or wrongly, agreed with Dato Onn and that the end of British rule in Malaya was within sight. The result of that interpretation was an immediate fall in the Malayan Stock market, the cancellation of several commercial planting and mining projects and a flood of selling of Malayan securities from London. It also considerably embarrassed the Federal Financial Secretariat who at that time were about to float a \$100,000,000 loan to provide the money with which to finance several large-scale Government social service schemes.

of gold. This is the official export price, and for the same assortment one can purchase on the free market at a price of about \$2,700,000,000 North Eastern Currency (about the equivalent of 300 oz. of gold). This is the domestic price and about 50% lower than the export price. If one wishes to export an application for a permit must be submitted to the competent authority, in this case the Overseas Trading Company, and this will be granted, the exporter surrendering the difference to this authority. In this case the sum of 300 oz. of gold payable in actual gold or the equivalent in North Eastern Banknotes. The idea of imposing this control of export is certainly to increase the revenue of State, but the more important it is to regulate prices at a fair level and simultaneously to prevent private exporters dumping on foreign markets.

Now the Manchurian Authority is dressing black and also bleaching white bristles in the Harbin bristles works. The quality, both black and bleached white bristles, is up to pre-war standard, even slightly over in respect of percentage of tops. The many private dressers in various places are turning out a quality much inferior than pre-war times, and the percentage of tops is barely 60% or lower. At present the total output during the season is estimated at about 500 to 600 cases in one month.

It was in response to demands or protest, or suggestions emanating from this country that Prime Minister Attlee a few days ago gave an assurance in the House of Commons that there would be no premature withdrawal of the British from Malaya. That assurance has been accorded a mixed reception. It has been, generally, welcomed by the Chinese community who realise that their future and prosperity in Malaya is bound up with British Administration. They also realise from recent articles on Burma which have appeared in the local press written by experienced British and Foreign correspondents that conditions in that country directly or indirectly due to the premature withdrawal of the British are tragic indeed. They are, naturally, anxious that those conditions should not be repeated in Malaya and that a long period of tutelage is necessary and desirable to train and adequately equip Malays and Chinese in this country eventually to take over the administration of the country.

The assurance given by Prime Minister Attlee has not so far, been welcomed by the Malays who say they want time to consider its implications. They, too, know now, but they are reluctant to admit publicly, that their future, even more than that of the Chinese, is bound up with competent, fair and just administration of the British which for years has shown a marked preference for Malays in Government posts and in the matter of land alienation. Any premature withdrawal of the British would mean inter-racial strife, probably on a large scale.

The reaction of the Commercial community can be summed up in the comment of Fraser and Co., sharebrokers, in their latest weekly report on the share market. They say "Wide interest was shown in commercial circles in the Prime Minister's assurance in the House of Commons regarding the political future of Malaya. But it was remarked in several quarters that this was a distinctly parliamentary utterance and that a much more explicit undertaking would be needed to restore confidence fully. And investors having vivid memories of the callous indifference with which their assets in Burma were sacrificed to political expediency were certainly not impressed."

The broadcast by Mr. MacDonald on January 16th is known in the commercial community in this country as his "liquidate the Empire" address.

Henry Waugh & Co. Ltd.

Some idea of the fear or uncertainty which the commercial community feels regarding the length of the present period of emergency and banditry can be gauged from a statement by the managing director of Henry Waugh and Co. Ltd., which accompanies the annual accounts. This company is one of the largest im-

porters and exporters in the country and it also manages or directs several large tin-mining and rubber-producing companies. The managing director, Mr. S. E. Travis says:—

"The present state of unrest in Malaya is having an adverse effect on the industries of the country, in particular planting and mining. The full effects of dislocation of trade and industry caused by the lawlessness has not been felt and it is impossible to predict their extent and severity but we are, nevertheless, taking such precautionary measures as we can against a long continuance of present events and possible future disruption of trade."

This company had a very good trading year and the chairman says "when related to the situation in Malaya the results can be considered satisfactory." The net profit was \$1,417,428 to which has been added \$434,358 brought forward from 1947. An interim dividend of 10 per cent. free of tax, was paid and the directors now recommend a final distribution of 15 per cent. less tax. For the year 1947 the total distribution was 25 per cent. free of tax.

The company has extended its business to Kuching in Sarawak where an office has been established and the requisite godown and other accommodation is now being built. The chairman says that this extension is in accordance with the company's policy of steady but conservative expansion of all aspects of the company's trading.

Straits Trading Co. Ltd.

The accounts of The Straits Trading Co. Ltd., one of the two Malayan tin smelters, show that for 1948 the company earned a net profit, after providing undisclosed amounts for depreciation, amortisation of leases, bad and doubtful debts and income-tax for 1949, of \$337,993. No dividend is to be paid. The amount brought forward from 1947 was \$449,289 and the profit for 1948 added to this amount, making \$787,282, is to be carried forward to 1949.

The chairman and managing director, Mr. E. M. F. Ferguson, says in the report that increased supplies of ore were received during the year but operations were curtailed by a strike at the Palau Brani smelter in April and May and considerable disadvantage resulted as ore had to be diverted elsewhere with consequent loss of revenue to the company. Mr. Ferguson also says that disappointments in regard to deliveries of stores and equipment continued to hamper operations and only recently have essential items which had been on order since 1947 or earlier been received. This has made it possible to undertake further much-needed rehabilitation and replacements and these are now in hand. Settlement of war damage claims is a matter of considerable moment to the company and it is a disappointment that this is still outstanding. A review of the tin situation generally will be given by Mr. Ferguson at the annual meeting of the company on April 25.

Trade Relations between Singapore and Indonesia NEW PATTERN OF TRADE ESTABLISHED BY THE DUTCH AUTHORITIES

(From a Singapore Correspondent)

There are signs that Singapore's favoured position as entrepot dealer in South-East Asia produce is in considerable danger: a reduction in this aspect of the Colony trade is to be regarded as a threat to its ability to act as a clearing house for British and American manufacturers. The danger springs from the Dutch move in Sumatra to introduce "boycotting" measures following termination of practically all barter trade with Singapore. With the exception of the unimportant areas in North and West Sumatra, all trade with Sumatra has been brought under a unified plan for Indonesia's trade to be conducted on the banking system from March 1 this year.

Most important of Indonesian territories is Sumatra which contributed \$200 million (Straits) to Indonesia's exports of \$291 million (Straits) to Singapore and took back \$94 million of Indonesia's imports of \$176 million from Singapore, last year. Petroleum usually forms a considerable portion

of Sumatran exports to Singapore but it is the export of raw materials chiefly copra, pepper, wet rubber and coffee which has accounted for the prosperity of a wide range of Singapore businesses. And it is in the export of Sumatran produce that Singapore is to be affected adversely by the new Indonesian Government measures, petroleum exports being jointly operated by the Anglo-Saxon and American monopolies and are "immune" from interference.

Under the banking system of trade which the Dutch have extended to Sumatra since last month, all imports and exports have to be paid for in money by banks' letters of credit according to an official rate of exchange of \$80 (Straits) to 100 guilders compared with an open market rate of roughly \$18 to f.100. The banking system which previously governed largely trade between Singapore and Java and places like Palembang in East Sumatra has never worked reciprocally for Singapore because of discriminatory measures against non-Dutch or non-Government appointed firms in Indonesia.

These measures deny the Singapore importer the right to sell to his opposite number in Indonesia by exports. This prohibition of a two-ways trade with Singapore is enforced by a series of controls which amount to a boycott of trade with Singapore. Controls include institution of Government authorised purchasing parties (who operate direct import and export according to Indonesian Government programme); arbitrary restriction on exports and control of imports in such a way as to make it practically impossible to purchase from Singapore.

Government authorised purchasers are exclusively Dutch; they buy up the major raw materials such as copra, pepper, coffee and better grade rubber for direct shipments to America, Britain and Europe invariably to pay for imports of machinery and plant, and general consumer goods. They are helped by Government prohibition of producers to sell their copra or coffee to other than "authorised" purchasers, and the practice of fixing a minimum export price for practically all commodities.

Exports are only permitted for coffee, for instance, by producers (or non-appointed purchasers) to the extent of three kilos: all stocks in excess of that amount only to be sold to authorised purchasers. The minimum export price fixed is almost always higher than buyers, like the United States, are prepared to pay and is therefore aimed at discouraging export to Singapore.

There have been complaints that restrictions on exports are arbitrary in that they are only imposed to suit the purpose of the authorised Government buyers and without taking into account the actual production in Indonesia. Together with the unrealistic rate of exchange through banks, producers es-

pecially of wet rubber are discouraged from increasing their output over and above supplies to meet local re-milling requirements.

Almost all purchases from Singapore are limited to an "inducement margin" on the proceeds of exports to this Colony. In the case of wet rubber this is 15 per cent while exporters of such minor items like birds' nest, sharks' fin, beche de mer etc. are given back 80 per cent of their foreign exchange proceeds for purchases from Singapore.

In this way only a small volume of imports is possible from Singapore and this is limited to goods more attractively priced, essential, and are readily available in the Colony.

Only Dutch firms are given a free allocation of foreign exchange for Government programmed imports. These are generally purchased direct from sources of origin and not from Singapore, unless again, Singapore is in a position to offer cheaper prices and only when direct imports will mean delay.

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Last year's trade with Sumatra, consisting mainly of imports from there of copra, wet rubber and pepper and exports to there of a wide variety of general consumer goods, chiefly textiles, building materials and hardware, had been facilitated by barter arrangements introduced in March last year. On the barter basis Singapore traders who imported produce from Sumatra were generally allowed, subject to Governmental approval, to export to Sumatra goods to a value, in Straits dollars, equivalent to or slightly less than the value of their imports from Sumatra.

The barter system presented little difficulty and both Singapore and Indonesian traders were given a wide range of commodities to select in their respective territories. It was generally accepted that this system was equitable and satisfactory and was not detrimental to the peculiar position of Singapore as entrepot dealer of Indonesian produce which in the main was re-exported to the United States and Britain.

The British government passed back to the Netherlands gold dollars against Sterling for the rubber and other principal produce of Indonesia shipped via Singapore to the United States, less a contribution towards Malaya's gold dollar expenditure on U.S. textiles imports proportionate to Malayan re-exports of textiles to Indonesia. The Dutch have since the operation of this compensation scheme in the year ended March, an estimated U.S.\$10 million to their credits.

Responsible Dutch quarters however expressed dissatisfaction with the compensation scheme and as a result the formula for working out compensation has now been modified.

Whether termination of barter trading will mean a boycott or not, it is evident that in order to provide foreign currencies for payment of a sufficient volume of "capital" and consumer goods imports for Indonesian rehabilitation, direct trade with countries like the United States and United Kingdom is to be increased sooner or later.

Radio Diffusion

It is not often that the Singapore Government withdraws a Bill which it has proposed in the Legislative Council. That course was however followed when a Bill designed to confer special powers on a semi-Government company, Radio Diffusion (Singapore) Ltd., was withdrawn by the Legal Adviser. The Bill broadly speaking would have permitted this company to string wires and put up poles and transmission lines over private property in Singapore. The Legal Adviser said in Council that there was considerable opposition to the Bill, both inside and outside the Council, to the granting of the special powers which the Bill sought to confer as it had not been made out that these powers were necessary at the present time. However if it was shown at a later date that the activities of the company were being hampered by a few individuals the Bill or some modified form of it may be introduced in Council at a later date.

Share Market

In a weekly report on the share market issued by Fraser and Company sharebrokers, they say:—"There was a fair measure of activity on Malayan markets right up to Easter. Business was concentrated mainly in the industrial section where sizeable parcels changed hands on investment buying and, in general, quotations showed a slight improvement over the week. Trading in tin shares was light. Sterling tin shares had an exceedingly dull week with London unwilling to quote except at impossibly wide prices. Rubber share transactions consisted mainly of desultory bargains in odd lots at below nominal quoted prices.

The inclusion in the new Dutch-British agreement of a direct exchange involving Indonesian produce valued at £8 million with British machinery and plant, textiles and manufactures, is evidence of one loss already earmarked in the trade between Indonesia and Singapore, on the one hand, and Singapore and Britain or the United States on the other.

Future volume of direct Indonesian trade with Europe and United States which to all intents and purposes is to be increased according to programmed Indonesian and Netherlands purchases, is as yet unknown.

The growing accentuation on capital class goods imports for Indonesian rehabilitation however may reach such dimensions as may affect considerably trade with Singapore. By reason of Singapore's austere share of dollar expenditure, imports of capital goods as well as essential consumer goods for re-export purposes have been insufficient to meet Indonesian needs.

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Typical effect of the Colony's restrictions on dollar expenditure is that on textiles imports and re-exports. With an estimated yearly Indonesian need of 800 million yards, Singapore's total imports for 1947 and 1948 only amounted to about half this re-export potential. Re-exports of textiles to Indonesia in the two years were not estimated to reach one quarter of requirements.

Pepper Market in Singapore

(From a Singapore Correspondent)

The price of white pepper soared to the record high level of \$300 (Straits) per picul immediately before Easter and there is every sign of a further advance in price depending on speculation on the Singapore produce markets. The New York market, largely disappointed by estimates of Malabar pepper deliveries, and a much depleted home stock, has been confronted with what is described as a very rapid advance in pepper prices, and is now quoting anything up to 76 U.S. cts. per lb.

Singapore has always been the chief stockist of Banka white pepper and Lampong black pepper which before the war accounted for nearly 60,000 tons of the total Indonesian output of 70,000 tons annually. Indonesia exported each pre-war year about 85 percent of the total world output of pepper. Pepper plantations in Indonesia suffered most drastically during the Japanese occupation which when ended left South Sumatra (Lampong) with only one quarter of the black pepper gardens. On Banka island the Japanese destroyed practically all white pepper plants. This, it is estimated, leaves Indonesian pepper harvests not very much more than 10,000 tons a year at present from Lampong.

It will take another three years or more to attain pre-war output of pepper in Indonesia if rehabilitation of the pepper cultivation in the two main areas was to be pursued unhindered. In the last season in Lampong only about 3,000 tons of black pepper were harvested. All except 300 to 400 tons

American textiles imports have since June last year been banned and the Colony market is already short of textiles. Although import restrictions on goods from Japan have been lifted three months ago, Government is still withholding issue of the Japanese textiles import quota. This quota is of only about 15 million yards and will be all that Malaya is allowed by the United Kingdom under the existing Sterling Area-Japan trade pact which stands until June this year. As a result direct Indonesian imports from Japan have been initiated. A Dutch-Japanese contract concluded earlier this year is expected to provide Indonesia with some 170 million yards of Japan textiles.

Singapore trade with Indonesia last year totalled more than \$467 million (Straits) and was first in importance in the trade of the Colony with more than 75 countries; with United States second worth \$410 million and United Kingdom third worth \$348 million (Straits). On a pan-Malayan basis Indonesian trade accounted for \$546 million and was third, beaten by United Kingdom with \$585 million and United States with \$667.5 million.

Because imports from Indonesia are almost all for Singapore exports to Britain and America, and exports to Indonesia are drawn from Singapore imports from these two largest suppliers of manufactures, the trade with Indonesia constitutes a barometer of Singapore's trading relations with both Britain and America.

of this pepper has been shipped to Singapore on the barter-trade basis. About two-thirds of these shipments to Singapore have been re-exported to U.S., U.K. and the European Continent for prices ranging from \$165 (Straits) in the latter part of 1948 and \$220 per picul early this year. Sales at this low price of \$220 were made mainly because of the lack of support from U.S. markets where consumers were earlier counting on even cheaper Malabar pepper.

Estimate of Malabar pepper surplus export stocks have been over-optimistic and are proving to be not exceeding 12,000 tons a year, or at best about 6,000 tons for present deliveries to U.S.

At a previous 50 cents U.S. price level world consumption of pepper was not expected to be more than pre-war or about 30,000 tons annually. With a long way more to go before next pepper crop harvests, stocks available for immediate export are thus negligible. In the hands of Singapore speculators are some 1,000 tons. They are virtually clinging to their pepper hoping that prices may rise further.

REPORT ON MALAYAN RUBBER AND TIN

Rubber

Production of rubber in the Federation of Malaya during the month of February 1949 amounted to 44,638 long tons, i.e., 27,593 tons on estates and 17,046 (estimated) on small-holdings (under 100 acres); this is a drop of

around 25% against the January figure of 59,806 tons (which includes late returns from small-holdings amounting to 1,169 tons) and the lowest figure for monthly output since the middle of 1946 when normal production restarted. The fall is attributed in part to the Chinese New Year holidays, which held up production for about a week, and also to the rainy weather experienced and the harvesting of rice.

Imports of rubber into the Federation totalled 4,188 tons, or 955 tons less than in January, 2,490 tons coming from Siam, 1,044 tons from Sumatra and 643 tons from Burma. Exports amounted to 61,732 tons, a drop of 13,836 tons compared with the figures for January. Principal exports were: to the United States 10,574 tons, the United Kingdom 6,435 tons, Russia 3,827 tons, Germany 3,265 tons, the Netherlands 2,475 tons, France 2,334 tons, Japan 2,009 tons, Canada 1,512 tons; exports to Hongkong amounted to 187 tons.

Stocks held in the Federation at the end of February totalled 68,128 tons, against 82,032 tons on January 31, i.e., on estates 20,827 tons, at dealers 41,626 tons, and at ports awaiting shipment 5,675 tons. Local manufacturers took 259 tons compared with 424 tons in January, and four tons were destroyed by fire, that is 3 tons accidentally and one ton by terrorists.

Tin

Tin-in-ore despatched from the mainland of the Federation of Malaya to Singapore and Penang during the month of February totalled 3,843 tons, compared with 4,640 tons in January. The total figure for January/February of 8,463 tons shows an increase of 1,910 tons against 1948, but a fall of 4,371 compared with the same two months of 1940. Of the above amount, 2,267 tons was despatched from Perak in February as against 2,867 in January, and 1,131 tons from Selangor as against 1,247 in January.

INDONESIA'S TRADE

The reconstruction of factories and plantations in Indonesia (that is to say the whole of Indonesia, both Dutch and Republican controlled) resulted in a favourable development of the islands' export trade in 1948.

In the first nine months of 1948 exports amounted to 754 million guilders—a considerable increase over the figure of 343,218,000 guilders in 1947 and 154,220,000 in 1946. Indonesian rubber exports in 1948 totalled over 270,000 tons, made up of 100,000 tons of estate rubber and 170,000 tons of native rubber. The biggest customers were the United States with 100,000 tons, Singapore with 70,000 tons and the Netherlands with 55,000 tons.

Report from Siam

Trade Mission

The Siamese Purchasing Mission, which has been in Europe since last November exploring the possibilities of markets for Siamese products and placing orders for machinery, etc., has now arrived in the United States from Great Britain. The mission plans to study American locomotives and other equipment needed for the rehabilitation of the Siamese railway system, which covers 1,500 miles, in order to handle more efficiently the shipments of rice which form 50 per cent. of the country's exports. Before returning to Siam, the mission expects to visit Japan to check progress on an order for rail equipment and various types of machinery amounting to US\$6 million, due for delivery by the end of this year.

Transportation

In connection with the improvement of the system of transportation in Siam, the Government has approved in principle a special appropriation for reconstruction of the highway from Bangkok to Haedyai, a main artery to the southern provinces. A great part of the road is of earth, which makes it impassable during the rainy season. The highway is important for supplementing rail transportation from the south, in conveying fruit and other produce to Bangkok. All roads, except those which are in the municipal areas, are under the control of the Highway Department. There are at present 5,235 kilometres of state highways opened to traffic.

Liquor Monopoly

In pursuance of its policy of promoting the Government liquor monopoly, private distilleries in future will be restricted by the Siamese Government to the manufacture of not more than 2,000 litres of liquor annually, as against the quantity of 10,000 litres which is at present permitted.

The Siamese Customs

An overhaul of customs procedures is being undertaken in Bangkok as the result of the discovery in two wharf godowns of goods on which customs duties amounting to 681,000 baht should have been paid. The goods were shipped from Hongkong, and the companies in Bangkok concerned with their importation will have to pay fines amounting to around 1 million baht. Suspicion was recently aroused by the display in shops of more prohibited goods than was warranted by the customs returns, and investigation showed the wholesale evasion of the regulations by customs inspectors and representatives of various local concerns; it has been estimated that approximately 1 million baht a month has been lost to the Government in customs revenue through the evasion of payment of duties. It is planned to impose stricter inspection of all incoming cargoes in future, before they are removed by consignees.

Economic Position of Siam

In a recent statement issued by the Siamese premier's office, it was men-

BANKS IN JAPAN

(By a Financial Correspondent in Japan)

The Bank of Japan

It was way back in 1901 that the Bank of Japan was established as the central bank of this country pursuant to the Bank of Japan Law. The institution of the Bank of Japan was an epoch-making event for the financial and economic life of the country in view of its having been the basic foundation for the modernization of the nation's economy. But inasmuch as the organisation of the Bank of Japan was primarily motivated by the need to subdue the inflation arising from the outbreak of the Saigo civil war of 1896 or, in other words, to take care of the flood of unredeemable currency in circulation, practically all preparations there for including its capital and reserve funds for the currency were made by the Government. This single fact came to weave a peculiar aspect

tioned that the financial position of the country had taken a favourable turn during 1948, as the result of speeding up production and increasing exports of local products, and that the Government had been enabled to repay most of the foreign loans raised abroad for the purchase of essential commodities. Exports of rice in 1948 had reached the target of 812,000 tons, and it was hoped that the figure of at least 1 million tons would be reached this year; from January 1949 up to the present about 410,000 tons had been exported. During the whole period from October 1945 to December 1947 export had amounted to only 219,700 tons.

Nearly all the rubber produced and the tin ore mined locally was reserved for export, and increased production must be encouraged as these products were always in demand for other countries; the output of tin still remained much below the pre-war level, though rubber production was satisfactory.

The teak trade has declined very much during the past year, owing to the high prices ruling locally, which made it difficult to compete with the price of teak from other countries in foreign markets. In order to remedy the situation, the Government had rescinded the order compelling exporters of teak to sell part of the foreign currency obtained from such sales to the Bank of Siam.

FRENCH TRADE WITH INDONESIA

Following upon the conclusion of an agreement between France and Holland, which came into effect in August, a French economic mission has arrived in Batavia with the object of studying the possibilities of increasing an exchange of products between France and Indonesia as well as the possibilities of expediting the application of the agreement. Exports from Indonesia would be copra, rubber and tin; and in return factory equipment would be despatched from France, together with automobiles, trucks and bicycles.

into the development of the nation's national economy. In sharp contrast to the Bank of England which acquired its "special rights as the central bank" in return for its extension of loans to the British Government with private capital accumulated among the people, the Bank of Japan was brought into existence as a modern organisation developed on the initiative of the Government. There is a marked difference between the two banking institutions; while the former rose to its present position through its own efforts, the latter was virtually pushed up to its station through the good offices of the Government.

Accordingly, although the Bank of Japan operated as a private juridical person apart from the Government it actually had the nature of a public juridical person. This was especially so after 1942 when the new Bank of Japan Law was promulgated; the law took after the regulations governing the Reichsbank instituted by Germany in June, 1939 and hence the dominating basic idea behind the Bank of Japan was the Nazi type of economic controls.

The position of the Bank of Japan has been strengthened to an increasing degree even after the war inasmuch as it has been entrusted with businesses concerning credit controls and priority financing which have become necessary as a part of the general economic controls and priority production formula. Consolidation of power by the Bank of Japan was further precipitated by the fact that post-war enterprises, unable to meet their own financial requirements due to the spiral of inflation, had to depend increasingly on the Bank of Japan for further supplies of funds to carry on.

Perhaps in view of this undesirable situation, SCAP issued a directive calculated to democratize the nation's financial system in August last year along the lines set for the democratisation of national economy. The principle underlying the directive laid stress on the importance of reforming the administrative organisations of the Finance Ministry and the Bank of Japan as essentials to the democratisation of the nation's financial structure and sought to effect no radical shift of a fundamental nature in the ordinary run of financial institutions.

Most important of all the recommendations made in the directive was the establishment of a non-partisan Currency and Credit Committee to be given supreme authority in the supervision of all financial organs including the Bank of Japan as well as in the formulation and enforcement of currency and credit policies. The transfer of this supreme authority which had hitherto belonged to the Finance Minister can be construed as divorcing the nation's currency policy from partisan politics and giving the

committee complete independence in matters of its assignments.

Thus, a portion of the authority previously held by the Finance Ministry, and the Bank of Japan was transferred to the committee, thereby restoring the Bank of Japan in form to its original position of the central bank, a note-issuing organ and the bank for the Government and ordinary financial institutions. Indications are that the Bank of Japan will undergo an organisational change. Although it was hitherto a special juridical person with the Government investing more than half its capital amounting to Y55 million and others Y45 million, all its stocks will in future be held by private banking houses and its directors chosen by the latter from among their representatives.

Special Banks

In Great Britain financial organs could develop as commercial banks or deposit banks. But in a country like Japan which was forced to develop modern industry at a rapid tempo, all banks found it necessary to finance the industry before they grew sufficiently mature as purely commercial banks.

But the ideal that the central bank must be the nucleus of all commercial banks in the true sense of the word cannot be ignored. For this reason, the Government recognised the need for establishing a financial organ designed to take care of the industry as a whole. This official recognition was translated into the organisation of the Hypothec Bank as center of making loans against immovable property in August, 1897, and of the Industrial Bank as nucleus of industrial finance in 1902 pursuant to special regulations thereof.

Hypothec Bank of Japan

The Hypothec Bank of Japan was created in 1897 with the main purpose of developing agriculture and industry through an extension of long-term loans at low rates of interest. Accordingly in view of its original object, the bank sought a major portion of its funds in the issuance of Hypothec Bank debentures. In 1910, however, the bank began to engage in discounts of notes and deposit business to insure a smooth operation of its management and yet its major source of funds was found to be the issuance of debentures until the outbreak of the Pacific War.

Loan-extension business of the Bank was divided into three departments, namely, 1) loans for agriculture, forestry, and fishery, 2) loans for industry in general, 3) loans against immovable property in urban districts, all of which have been made over a long period of time. The bank has placed no special stress on any of these three types of loan extension and continued to engage in elastic finance to be oriented to any phase of national economy depending on the circumstances of the day.

When the bank was instituted, it was not authorised to take any mortgages other than land and buildings to the detriment of industry which was not in a position to acquire loans from the bank on specified conditions. Accordingly, the financing activities of the bank at the time of its organisation were centered on making loans for agriculture. Restrictions on the bank's loaning were, however, eased with the enforcement of regulations permitting its loans on mortgages by financial organisations. The result was that the Hypothec Bank was empowered to make loans to enterprises in general.

In the latter part of the last war, there was a marked increase in various types of deposit accounts and extension of loans to industry and other enterprises, as far as the bank was concerned. But the SCAP directive on the reform of the financial system issued in August last year robbed the bank of its right to issue such a large amount of bonds as previously and placed the bank in a position to depend on its own capital and deposits to be made in extending loans to outside circles.

It may be said therefore that the SCAP directive has given a halt to the phase of operation by the bank which served to promote the healthy development of industry and stabilisation of the people's livelihood through an extension of long-term loans to both urban and rural districts with funds accumulated from the masses through flotation of Hypothec Bank debentures, especially bonds of small amounts peculiar to the bank. Not only that, the SCAP directive, divorcing the bank from its special rights accorded a special bank, paved the way for the bank to start a new life as an ordinary bank standing on popular backing to contribute toward the rehabilitation of the country through its network of branch offices and long and wide experiences in banking business.

The Industrial Bank of Japan

The Industrial Bank of Japan was established in March, 1901, in accordance with the Industrial Bank of Japan law, with the main objective of extending loans to mining and manufacturing industries on mortgages and inducing of foreign capital into the country.

The bank held a special position in the country as an organ for induction of foreign credits into the country. As early as October, 1902, shortly after its inception, the bank blazed the trail by floating in London £50 million Imperial bonds with five per cent interest through the Hongkong-Shanghai Bank. Efforts made by the bank to induce foreign capital into Japan were brought to an end after it floated in New York the 5.5 percent interest Tokyo Metropolitan bonds in American currency in April, 1927. During the intervening period of 25 years,

the bank fulfilled its duties as an organ for acquiring foreign capital for the country.

By the induction of foreign capital is meant the injection of foreign capital into Japan's national economy in the form of loans or investments. In the case of this bank, the induction of foreign credits meant the acquisition of foreign investments in the country in the form of stocks and bonds.

The bank actively engaged in the induction of foreign capital into the country since its inception, but that was not all. The bank in addition offered its good offices for various departments of industry in floating their bonds or making loans to them, thereby establishing close relations with them. As it is placed in a position to judge various enterprises with reliable and proper data on hand, the bank is being called upon by American capitalists to offer information as to the feasibility of their investments in their prospective fields of enterprise in Japan.

The Yokohama Specie Bank

In pre-war days, the Yokohama Specie Bank operated as a special bank dealing in foreign exchange. Since its inception in 1880, the bank had handled approximately 60 per cent of the foreign exchange relative to Japan's imports and exports for a long period of 70 years. When Japan's foreign trade flourished, the bank, together with the Japanese Government, greatly contributed toward the promotion of foreign trade and stabilisation of financial circles at home through its world network of branch offices and bureaus. In July, 1947, however, the bank was designated as a closed organ to conform to the spirit of the democratisation of Japan's national economy. For this reason, it is already expected that leading banking houses will engage in competition in the dealing of foreign exchange.

The Bank of Tokyo was born in December, 1946, with the domestic assets and personnel of the now-defunct Yokohama Specie Bank. As an ordinary financial institution, therefore, the bank has ever since been striving to expand its own network of branch offices in the country as well as to absorb the floating currency as deposits. But inasmuch as the Bank of Tokyo is an offshoot of the Yokohama Specie Bank which made it its main business to deal with foreign traders, it maintains on its staff a number of foreign exchange experts, and furthermore has a great many friends and acquaintances abroad, the bank is expected to outdo all others in the field of foreign exchange with the reopening of exchange business with the rest of the world.

Under the present circumstances, Japanese banks are not allowed to deal in foreign exchange but are authorized to engage in transactions of export bills based on commercial letters of credit issued by the branch offices in Japan of foreign banks. Yet

the amount of export bills handled by the bank occupies 50 to 60 per cent of the nation's total. Of the total loans extended to exporters by the nation's financial institutions amounting to Y1,132,600,000, the loans made by the bank out of the discounts of trade bills rose to Y213,000,000, or 19 per cent of the whole. While loans made by other banks in the form of trade bills were merely five to six per cent of their entire financing, the same kind of loan extended by the bank amounted to 30 per cent.

Beside these lines of business, the bank engages in investigations of the credit status of foreign business interests and submits the results to Japanese traders or gives information on Japanese business interests to foreign concerns.

Even if foreign exchange business is handed over to Japanese banks following the fixing of a single exchange rate, there is little likelihood that the bank will be able to carry on such activities as was witnessed in the days of the Yokohama Specie Bank inasmuch as trade by various countries is considered to remain under control as long as the cold war continues. By and large, the Bank of Tokyo and the Teikoku Bank, formerly the Mitsui Bank, are regarded as most anxious to engage in transactions of foreign exchange and smooth development of trade.

The Reconstruction Finance Bank

As to the supply of industrial funds necessary not only for the rehabilitation of the nation's industry devastated by the last war but also for effecting an early stabilization of the people's livelihood, much is expected of free and speedy financing by various financial institutions. Such expectations however are not to be met easily in the light of various objective conditions, namely, adjustment of wartime indemnities to various enterprises, adjustment and reconstruction of enterprises, and adjustment and reconstruction of banking institutions. As a result, the Reconstruction Finance Bank was established on January 24, 1947, with Government capital to meet the urgent demand for industrial funds.

Inasmuch as the bank shoulders an important task for speeding up the recovery of national economy, business transactions by the bank should be closely supervised. For this reason, the bank is placed under the supervision of the Finance Minister. For the management of the bank, the Reconstruction Finance Bank Committee selected from among persons, both official and private, is held responsible. In addition, in view of the fact that the bank extends loans for industrial recovery with funds obtained from the operation of state capital, its extension of loans is carried out pursuant to the auxiliary finance regulations, the loan extension regulations, and the provisional loan extension regulations framed by the Reconstruction Finance Bank Committee. While this is the rule governing the extension of Reconstruction Finance Bank loans, actual practices re-

Japan's Export Business

STRONG INQUIRY FOR CONSUMER AND CAPITAL GOODS FROM ALL COUNTRIES

Japan's export industry, gradually recovering from scars incurred during the war, faces tough competition in a changed postwar world but not necessarily one of gloom, provided efforts are made to promote certain specific lines of manufacture, which are definitely in demand in the world market. While her principal items for exports are various kinds of textiles, machinery, metallic products, ceramics, aquatic products, rubber goods, chemicals, lumber, canned goods, glass products, cement and paper manufactures,

volve around the plan for departmental industrial funds formulated with the Economic Stabilization Board as its nucleus at the beginning of every quarter in the light of the national funds program and the materials mobilization plan so that a proper financing policy may be pursued.

Since its inception, the bank has extended the type of loans that is essential to the recovery of national economy but hard to obtain from other financial establishments with the sole purpose of fulfilling its original objective. As of July, last year, the balance of the loans made by the bank amounted to Y81,760,000,000, indicating a trend of marked increase in the demand for RFB funds.

An inquiry into such an increase in the amount of Reconstruction Finance Bank loans reveals that there have been a vital need for restoration of facilities and equipment in almost every section of industry.

Other Banks

Following the decision of a single exchange rate and the induction of foreign banks at Teikoku, Chiyoda, Osaka, Fuji, Kyowa, Sanwa, Daiichi, Tokai and Kobe are likely to engage in keen competition in the fields of foreign exchange capital. Of all the banks, however, the Teikoku Bank, formerly the Mitsui Bank, is expected to make a conspicuous comeback in such fields of activity in view of its past engagements in foreign exchange and capital induction.

The inception of the Teikoku Bank dealing in foreign exchange is traced back to the contract for mutual transactions it signed with Barclay and Company, subsequently the Barclays Bank, of London in 1906. From then on, the Teikoku Bank expanded its sphere of activity abroad through its conclusion of agreements with various banking concerns in the United States, Europe and other parts of the world. During the period of 1931 to 1941, the bank ranked second to the Yokohama Specie Bank as a leader in foreign exchange, handling from 20 to 25 per cent of the nation's monetary transactions for imports and exports. Not only that, the bank actively operated as an organ for induction of foreign capital by issuing and taking charge of bonds in foreign currency for Japanese banks.

Japan also produces other lines which can be bringing in much-needed trade income. Promotion of foreign trade being an indispensable prerequisite for Japan's economic rehabilitation and self-sufficiency, it might be well to take accurate stock of Japan's current foreign trade in contrast to what it was during prewar days and to probe into other export possibilities.

According to figures by Occupation authorities for the first half of 1948, Japan's exports and imports for that period valued 77 million dollars and 348 million dollars, respectively. Compared with half of the export and import figures of respectively 912 million dollars and 1,086 million dollars for 1937, the year when Japan's foreign trade attained the biggest annual peak, exports and imports now have shrunk to a figure of 16.9 and 64.1 per cent, respectively. While this comparison alone is sufficient to illustrate stagnancy of foreign trade, consideration of the fact that commodity prices have generally soared two-fold since prewar days means that exports actually have dwindled to 8 per cent and imports to 32 per cent.

During the latter half of last year, textile exports registered an extremely favourable showing, exports for the year attained a figure of around 220 million dollars. Even this estimate, however, runs to a mere 24.1 per cent as compared to prewar days and to only 12 per cent should the rise in commodity prices be taken into account.

As against such a trend, the foreign trade program for the 1949-50 fiscal year (April, 1949, to March, 1950) calls for 500 million dollars worth of exports and 950 million dollars worth of imports. The principal items for export and their value under this program are the following, in terms of dollars:

Textiles—300 million, machinery—70 million, metallic products—25 million, ceramics and aquatic products—15 million, coal—11 million, rubber goods—9 million, chemicals and lumber—8 million, canned goods—6 million, glass products and cement—5 million and paper manufactures—4 million.

That the figure for export which totalled 256 million dollars in 1948 has been elevated to an estimate of 500 million dollars for 1949-50 is due to speculation that trade agreements concluded with other countries during the course of last year will begin to materialize.

Foreign trade agreements which are already concluded or slated to be concluded are the following five, listed according to area and value (unit: one million dollar): Sterling area—220, Netherlands East Indies—89, Sweden—13, Siam—60 and Pakistan—60. Total—442 million dollars. Considering that half of the 442 million dollars in foreign trade will be in exports, it means

that Japan would export items valued at 221 million dollars. Should this foreign trade materialize according to plan, Japan's exports during 1949-50 would easily exceed that of last year. The possibilities of further exports to the United States, China, the Soviet Union, the Philippines, South and Central America and Europe leads to the conclusion that the export goal of 500 million dollars is not impossible of realization.

Trade with the Sterling area can be broken down as follows (unit: 1,000 dollars):

Areas	Exports to	Imports from
Britain & Colonies ..	46,723	54,423
Australia	19,500	18,500
India	17,025	28,260
South Africa	8,191	6,786
New Zealand	2,500	2,500

Japanese exports which are in similar demand in all of these trade agreements are cotton yarn, silk goods, rayon and other textile goods, which moreover, constitute the greater part of the value of total exports. With reference to such countries as India and Siam, their chief demand lies in imports of industrial equipment and construction materials, and they are concerned with restricting imports of consumer goods and non-essential luxuries. Such countries are anxious to obtain spinning machinery, ships, rolling stock, power generation equipment, paper manufacturing facilities and other supplies.

Since the Surrender the greatest number of foreign trade buyers and commercial inquiries of any single country have come from the United States, their number far overshadowing that of other countries. India and Hongkong rank next. Conspicuous is the meagerness of overtures from Central and South America, but this is because exports to such countries are handled virtually by American buyers. In this connection, there seems to be the mistaken impression among some Central and South American businessmen that they must handle their transactions with Japan through American channels.

With the conclusion of a trade agreement with Japan, India has alleviated her import restrictions against Japan during the period from October to March, this year, and has done away with the need for import licenses. Such steps recently have led to a sharp increase in inquiries for consumer goods from India. This also is true in the case of Singapore for similar reasons.

The sudden rush of inquiries, on the other hand, has had a detrimental aspect, namely, with respect to the activities of unscrupulous buyers. While it is only natural that buyers' orders should be directed against those goods for which a heavy demand exists in the international market, there have been instances frequently in which buyers who have received allotments have shown themselves to possess no ability to purchase them. These buy-

ers have followed the practice of selling their rights to other buyers capable of meeting payments, for the purpose of obtaining margin profits. The presence of such buyers who dream of unscrupulous profits need to be carefully watched.

At present, the f.o.b. export price of sheet aluminium is about \$420 per ton, and orders are great due to the fact that there is a world shortage in aluminium. Under such circumstances, aluminium is being sold to buyers at prices from 20 to 30 dollars above the floor price, and in some cases up to 80 dollars for certain items. In cases like these, there is the danger of the aforementioned practices.

The bulwark of Japan's exports rests on textiles. And while the advance of chemical fibres may serve to check exports of raw silk, it seems that the demand for cotton finished goods will remain active for several years to come.

What Japan must know, however, is the fact that the cotton spinning industries of such countries as India and Brazil which themselves produce raw cotton have made great progress during the war and have reached the stage of exporting their products. Another important fact which cannot be overlooked is that the United States, which has now attained the point of covering her domestic requirement, is beginning to seek external markets. The present capacity of spinning facilities in various countries throughout the world, is as follows:

Country	No. of spindles
Britain	31,300,000
United States	23,742,000
India	10,354,000
U.S.S.R.	10,040,000
France	8,170,000
Germany	6,532,000
Italy	5,000,000
China	4,582,000
Japan	3,319,000

The number of spindles now possessed by Japan constitutes a sharp drop from that of 12,000,000 existing in 1937.

In July, last year, India produced 131,500,000 pounds of cotton cloth. In August of the same year, Japan's output in comparison reached only 24,000,000 pounds of cotton yarn and 76,000,000 yards of cotton cloth, or one-fifth of India's production.

The U.S. production of cotton cloth during the prewar years from 1932 to 1934 averaged 8,390,000,000 yards of which exports amounted to 3.7 per cent or 315,000,000 yards. In 1947, after the war, the United States' production of cotton cloth rose to 11,077,000,000 yards, of which exports increased to 13.3 per cent or 1,470,000 yards.

As Japan's prewar exports amounted approximately from 2,600,000,000 to 2,700,000,000 yards, it goes without saying that India and the United States have made considerable inroads into Japan's overseas markets.

Japan's exports of raw silk by November, last year, reached 65,302 bales, surpassing the 1948 fiscal year's goal of 50,000 bales under the five-year plan.

On the other hand, with reference to India, which used to be a major market for Japanese rayon, since the end of the war, there has been a marked advance of Italian manufactures into India. Japan will only be able to export 6 per cent of her rayon yarn output and 13 per cent of her rayon textiles. Besides, the stockpile rayon yarn and cloth as of October, last year, was reported to amount to only 8,500,000 pounds and 12,000,000 yards, respectively.

The chief drawback in textile export lies in the shortage of dollar currency being experienced by nations doing business with Japan. However, it is apparent that Japan in the future will have to concentrate on producing inexpensive goods of high quality which stand up against competition.

In contrast with the outlook for textiles, the demand for ships, spinning machinery, rolling stock, etc. is strong. While there is also large demand for sewing machines, watches, cameras, other mechanical equipment, ceramics, tea and medicines, much hopes cannot be pinned on them owing to import restrictions.

The principal markets for textile machinery are India, Pakistan, Hongkong and China. Export volume from April to December, 1948, attained only 5,000 spindles. For the 1949-50 fiscal year, a new all-out export policy even at the cost of sacrificing domestic needs, will be adopted, and with reference to spinning machinery, some 469,000 spindles, including 199,000 spindles for 1948-49 and some 270,000 spindles for 1949-50 will be exported.

This may be broken down as to countries—for India—280,000 spindles, including 100,000 in government-to-government trade and 179,000 in private contracts; for Pakistan—80,000 spindles and for Hongkong—109,000 spindles. Orders for the abovementioned have all been formally concluded.

On the other hand, Japan-made automatic looms are strongly favoured by foreign countries both for their excellent performance and low price. The prices of the Sakamoto type cop-change machine to be shipped to India, for instance, compare in the following manner with similar models produced by the Northrop interests, namely, the prices of Japanese makes being half or even lower than that of similar American machines (in US\$):—

Sakamoto	Northrop
Size	Type
36 inches	495
40 "	515
44 "	535
48 "	555
52 "	575
56 "	595
60 "	615

Negotiations for Japanese made rolling-stock recently have also been active, with Siam's order for rolling stock amounting to 7,500,000 dollars of her trade agreement with Japan aggregating 67,000,000 dollars. Negotiations

Japanese Industrial Reports

CEMENT

Stimulated by the Government's five-year road construction program, domestic demand for cement is now increasing considerably. The output goal for 1948-49 is set at 2,100,000 metric tons, but under the five-year plan the annual production is scheduled to forge ahead more than 2.5 times to 5,385,000 tons in 1953-54 through 2,936,000 tons in 1949-50; 3,540,000 tons in 1950-51; 4,135,000 tons in 1951-52 and 4,750,000 tons in 1952-53. Against this, the current monthly capacity is estimated at 425,400 metric tons.

Assuming that the cement companies operate at 80 per cent capacity, their output would be 340,000 metric tons per month or 4,080,000 metric tons per annum. It means that with the existing equipment the five-year program can be carried out without hitch by 1951-52. Because every company will concentrate efforts upon the improvement of the existing equipment, the last goal of

now under way involve 50 steam locomotives, 120 passenger cars and 500 freight cars and 1 six-ton locomotive for Siam; 16 locomotives, 42 passenger cars and 174 freight cars for Pakistan; 50 locomotives for India, and 1 eight-ton electric locomotive for the U.S.S.R.

As to ships, the greatest demands are being made by European countries. This is because Japan's export prices for ships are fixed at a point about 20 per cent cheaper than prices offered by Britain. The majority of these negotiations are for large and medium size steel vessels, fishing boats, lighters and various other types. By the end of last year, Japan received negotiations for 126 ships. Of this number, 2 catcher boats already have been completed for Norway, and contracts also have been concluded for 8 more catcher boats for the same country. Among contracts which are scheduled shortly to be concluded include those calling for 10 freighters and 5 tankers, aggregating a tonnage of 172,000 tons. Countries involved in such deals include Norway, Denmark, France, the Philippines and the United States, there being many inquiries also from Australia, Ceylon, Pakistan, Hongkong, India, Holland, Denmark, Siam and the Soviet Union.

Besides this, a considerable number of inquiries are being received for industrial facilities, such as electric generation equipment and entire specifications for paper manufacturing plants. Demands from Asia countries which are striving to become industrialized since the end of the war are extremely strong. While the latent demand for sewing machines, oil engines for forming purpose, wall clocks, electric fans, bicycle parts, medicines, tea and ceramics also is big, the fulfillment of such a demand cannot be looked forward to with great expectation for some time to come as such transactions hinge on import restrictions.

5,385,000 metric tons will be attained without installing new equipment if the existing plants are improved and utilized efficiently.

The toughest bottleneck in the way of cement production is the shortage of coal although limestone—another important material—is abundantly available in this country. Under the coal distribution program mapped out by the Ministry of Commerce and Industry, three per cent of the total coal output has so far been allotted for cement making. Assuming that coal output totals 2,800,000 metric tons a month, the allotment for cement would be 84,000 tons. With this allotment, 193,000 tons of cement could be made assuming that 2.3 tons of cement can be manufactured with one ton of coal. Incidentally, cement production in November, 1948, totalled 187,540 tons, indicating that the coal allotment was just enough for the cement industry.

In fact, however, coal has not been distributed on schedule and, still worse, inferior coal has been supplied in comparatively large quantity. Therefore, the monthly cement output has long been kept on the 130,000-150,000 ton level. But prospects are encouraging on the whole because the Ministry of Commerce and Industry is expected to boost the coal allotment for cement and because the coal output program will be pushed with 42,000,000 metric tons per annum as a new target.

Another encouraging factor for the cement industry is the increasing possibility of outgoing shipments. The Board of Trade plans to export 70,000 tons of cement monthly (or 800,000 tons a year) in the 1949-50 fiscal year. Cement companies are well able to make both ends meet at the yen-dollar rate of \$60. The f.o.b. price for cement is now \$16 per metric ton.

Japan-made cement is usually sold on the overseas market at \$42-43 per metric ton or 2.5 times the f.o.b. price (\$16). Bag cost, freight and other expenses are especially high due to inevitable circumstances in Japan. But the trade outlook will become all the brighter if these expenses are curtailed in the future. In this respect, prospects are particularly encouraging for the Nippon Cement and Iwaki Cement both of which have most of their plants on the sea coast.

IRON AND STEEL

Production goals in 1949-50 are set at 1,700,000 and 1,800,000 metric tons for pig iron and ordinary rolled steel, respectively. These figures constitute an increase of 80 and 50 per cent, respectively, over the estimated outputs in 1948-49 of 915,000 and 1,200,000 metric tons. Such sizeable gains are expected because top priority is to be granted to iron and steel as well as coal in carrying out the 1949-50 production program, which aims at attaining about 70 per cent of the prewar 1930-34 standard, and because efforts will be concentrated not only upon textiles but

also upon such capital goods as rolled steel and machinery in enforcing the export plan designed to double the 1948-49 trade volume.

To promote this ambitious iron-steel program, key materials are to be allotted in greater quantities than in 1948-49. The coal allotment, for instance, is scheduled at 5,827,000 metric tons as against 3,938,000 metric tons in 1948-49. Besides, 2,000,000 metric tons of imported coal are earmarked for iron and steel making.

Allotments for Iron-Steel Making
Items (unit in brackets) 1948-49 1949-50
Coal (1,000 m/t) 3,938 5,827

Electric Power
(1,000,000 kwh) 1,449 1,790
Rolled Steel (1,000 m/t) 21.4 40.6
Cement (1,000 m/t) 25.325 40

Rolled steel allotments will be increased for electric power, railways, shipbuilding, automobiles and general machinery. Not only that, 500,000 metric tons of rolled steel as well as greater quantities of manufacturing machines, rolling-stock, and ships will be exported during 1949-50, according to the export program.

The total supply of iron is estimated at 2,000,000 tons of which blast furnaces will furnish 1,700,000 tons and imports 300,000 tons. Including 140,000 tons of re-rolled products, the aggregate rolled steel supply will be 1,940,000 tons. Incidentally, the output of steel ingot is estimated at 2,500,000 tons.

In order to attain these production targets, blast and open hearth furnaces will have to be newly kindled, and a further expansion of rolling mills will become necessary. There are at present eight blast furnaces in operation and nine more furnaces will be put into operation during the 1949-50 fiscal year. The aggregate fund necessary for this expansion plan is estimated at Y12,000 million, to be supplied entirely by the Reconstruction Finance Bank.

The monthly output of rolled steel in December, 1948, increased to the 120,000 ton mark, establishing a post-war record. The reasons for this are: (1) The supply of electric power did not decline as generally feared; (2) Iron ore and coking coal were imported smoothly, and (3) The "continuous" process technique from iron to rolled steel came to show high efficiency in leading iron works. The rolled steel output from April to the end of 1948 totalled 840,000 tons. If no serious obstacles crop up in the January-March period, the target of 1,200,000 tons for 1948-49 is expected to be attained (including re-rolled products). It is to be noted in this respect that the upward production curve since August, last, has been accelerated, among other circumstances, by increasing import of iron ore and coking coal. This encouraging factor will continue into 1949-50. But optimism is unwarranted as the 1949-50 goal cannot be attained unless the monthly output is boosted to the 150,000 ton level.

Iron and Steel Output

(In metric ton)

Blast Furnace Steel Ordinary

	Pig Iron	Ingot	Rolled Steel
April	41,662	121,838	66,029
May	45,431	116,380	75,117
June	50,695	135,065	76,633
July	59,275	140,007	88,555
August	65,085	148,571	91,149
September	70,690	165,423	108,956
October	78,255	182,767	101,926
November	79,319	182,000	107,725
December	82,080	196,819	122,782

Steel products, such as sheets, tubes, and wire-ropes, have already been shipped to the Philippines and some Near East countries, and shipments will increase in the future. The new exchange rate is favourable and prospects will be promising for exports of steel products.

ROLLING STOCK

The volume of rolling stock exports has been increasing yearly since the war's end. During fiscal 1946-47, only 13 steam and 4 electric locomotives were shipped abroad; but in 1947-48, besides 11 steam and 2 electric locomotives, 54 freight cars were exported. The total value of these shipments, in the two above-mentioned years, is estimated at about Y147 million. Then, 1948-49 was epoch-making, with a large order from the U.S.S.R.; and altogether 360 units, including 30 locomotives, are expected to be completed for export by the end of March. This bountiful order gave reinvigorating impetus to the five leading manufacturers (Nippon Sharyo, Kawasaki Sharyo, Kisha Seizo, Mitsubishi Jukogyo and Hitachi Seisakusho). Moreover, with the conclusion of the \$60 million trade agreement between Siam and Japan, further large shipments of rolling stock have been scheduled. These will comprise 50 locomotives, 120 passenger coaches and 500 freight cars to the total value of some \$5.9 million, or more than 1,700 million in Japanese currency. There are, in addition, enquiries from the Philippines, Pakistan and Korea; so this year should see much activity in the rolling stock industry.

The strong position of the rolling stock industry in so far as export is concerned lies in the fact that the hitherto applied conversion rate gave a relatively high value to the yen. With locomotives, the rate has been in the vicinity of Y250 to the dollar, as will be seen from the prices—Y12 million ex factory, plus 20 per cent f.o.b. at Y14.4 million or \$58,000. The rates for passenger and freight cars have been between Y300 and Y350 to the dollar. So it will be seen that rolling stock has the biggest advantage among all export machinery.

Unlike steel ships, the destinations for rolling stock shipments are all in the Far East and Southwest Pacific areas. Although manufacturing techniques appear level, the customers seem to be satisfied. Furthermore, the dollar

quotations for locomotives are apparently 20 per cent or so lower than elsewhere. As far as the present destinations are concerned, the industry can cope with the competition offered by more advanced nations.

The most immediate difficulty is that of financing. Industries such as rolling stock manufacturing, which require time for construction work, will be given more consideration in the discounting of bills and other means of credit extension.

SPINDLES AND LOOMS

The yen-dollar conversion rates as previously applied to textile machinery were according to production sources. Averages were Y270 to Y300 to the dollar for spinning machines and Y240 to Y270 for looms. At the new rate of yen 360 there will be little difficulty in breaking even and the industry should make profits.

This, however, in itself is not enough to permit optimism regarding future exports. For, textile equipment produced in the United States and Britain are, in various respects, superior to Japanese manufactures. Whereas production techniques in Japan remain at or below the prewar level and various limitations are imposed by the shortages of adequate materials, United States and British machines are so highly developed that they require much less manpower for operation and are far more durable, with less wear and tear, because of superior materials used.

In prices, too, Japan is placed at a disadvantage. For, since export contracts are entered into on the basis of f.o.b. quotations, the delivery prices are high because the intermediate buyers seek high profits. (The United States and Britain, shipping their goods in their own bottoms, export on a c.i.f. basis). The fact that, nevertheless, large orders continue to flow in from India, China, Pakistan and others is because of two reasons: first, quotations on Japanese equipment are somewhat lower because it has been ruled that British or American c.i.f. prices shall not be exceeded; and, second, because American and British machines (particularly spindles) are so highly developed that they require considerable mechanical knowledge and proficiency in operation as against simpler and less efficient machines in Japan, and because the former are adapted to long-fibre cotton whereas Japanese equipment is designed for short-fibre Indian cotton.

But with proper training and instruction, there should be no great difficulty in the operation of United States and British machines, and the adaption of these to Indian short-fibre should be a simple matter. Therefore, competition is bound to stiffen, and unqualified optimism cannot be permitted. So, of all the problems with which Japan's textile machinery manufacturers are confronted, the most urgent is that of technical advancement.

SHEET GLASS

The official price for sheet glass was set at Y2,200 per case. As Y350 is recognised for packing and other specified expenses for export purpose, the f.o.b. is Y2,550. The selling price abroad, on the other hand, is \$4.25, and, accordingly, the conversion rate is Y600 to the dollar, a surprisingly low level. Therefore, at the new exchange rate it would be hardly possible to export sheet glass on a paying basis.

But the afore-mentioned \$4.25 is none other than the floor price, and a survey of transactions from January to December, 1948, reveals that the average unit price was \$4.88. This is ascribed to the fact that, whereas the \$4.25 is calculated on the basis of small sizes, exported sheet glass consists mainly of large sizes and thick grades. According to the consensus of glass manufacturers, therefore, a subsidy for adjustment of prices is absolutely necessary for some time.

Before the war there was heated competition between Japanese and Belgian glass manufacturers on the world market. After the war, Japan and Belgium are again the two big glass vendors, and no other country appears to have any surplus capacity for overseas shipments. The sheet glass industry in this country is practically monopolized by two corporations—Mitsubishi Kasei Kogyo and Nippon Igarasu, both of which are equipped with excellently rationalized plants. Due to the further improvement of their manufacturing equipment, the production efficiency of these companies is reported to have been restored to prewar standard. As of consequence, there remains little room for further rationalization, insofar as equipment is concerned.

There are however possibilities that the average selling price abroad will advance to \$5.70-6.00 from \$4.25.

Although a final plan still remains to be worked out, sheet glass output in 1949-50 is estimated at 2,400,000 cases, of which 360,000 cases are to be earmarked for exports. The figure constitutes an increase of about 26 per cent compared with the scheduled output in 1948-49 of 1,900,000 cases (of which 250,000 cases are for exports). It is estimated that of the total production expense, material and fuel costs comprise 46 per cent, direct labour costs 6 per cent, and indirect expenses 48 per cent. If 2,400,000 cases are produced on schedule in 1949-50, the production cost would decline by 15 per cent.

For some time it will be necessary for the Government to grant some subsidy to sheet glass exports, although possibilities are increasing that production increase plus further rationalisation will be able gradually to reduce the cost of production to the extent of the exchange rate of yen 360 per US\$.

TIMBER

Houses constructed in 1946 and 1947 totalled 3,054,000 and 4,044,000 tsubo

in terms of floor space, respectively. About 540,000 units, involving a total floor space of 6,450,000 *tsubo*, were built in the January-September period, 1948. The Ministry of Construction has mapped out a plan of building 500,000 units in 1949, of which wooden houses comprise around 460,000 units. Their aggregate floor space is estimated at approximately 6,250,000 *tsubo*, assuming that each house has a space of 12.5 *tsubo*.

1949 House Construction Plan

(In 1,000 units, each unit having a floor space of 12.5 *tsubo*)

Houses to Let for General Public	80
Houses for Colonizers	30
Houses to Be Sold in Instalment	50
Houses for Coal Mine Workers, Etc.	100
Houses to Let	10
Houses to Be Built by General Public	280
Total	500

Housing construction during 1930-34 was estimated at 6,000,000 *tsubo* annually. This was generally considered as the normal demand for housing when Japan had a total population of 65,000,000. Assuming that Japan's population increases to the 80 million mark, the normal demand would add up to about 7,380,000 *tsubo*, or 615,000 units (each having a floor space of 12 *tsubo*). Besides, it is generally held that housing is now about 3,800,000 units short of demand. In order to cover this scarcity in 10 years to come, 380,000 units will have to be built every year. Add this to the estimated normal demand, and 900,000-1,000,000 units will have to be constructed in the coming decade.

Timber Production & Allotment (1948) (in 1,000 *koku*)

	Production	Allotment
General Purposes	38,800	43,270
Mine posts	13,000	13,000
Railway Sleepers	2,500	2,500
Electric Poles	1,000	1,000
Shipbuilding	—*	2,530
Rolling-stock	—*	1,000
Pulp	5,500	5,500
Plywood	1,200	1,200
Total	62,000	70,000

*Production for such use is included in that for General Purposes.

The timber allotment in 1948 was scheduled at 70,000,000 *koku*, of which new felling comprised 62,000,000 *koku* and stocks 8,000,000 *koku*. Of this amount, 15,000,000 *koku* was allotted for housing as against 12,000,000 and 11,000,000 *koku*, respectively, in 1947 and 1946. But because each unit requires at the least 4 *koku* of timber per *tsubo*, the actual needs estimated on the basis of the above-mentioned building program would have been 12,200,000 and 25,800,000 *koku*, respectively, in 1946, 1947 and 1948. This indicates that timber consumption for housing must have far eclipsed the official allotment in the past years.

JAPANESE FINANCIAL REPORTS

Japanese Aid Counterpart Fund

SCAP has instructed the Japanese Government to establish as of April 1 a special account within the Bank of Japan to be designated as the U.S. Aid Counterpart Fund in an amount commensurate with the dollar cost of American aid furnished to Japan by the United States Government at a rate of exchange to be indicated by the Supreme Commander. Withdrawals from the said fund will be permitted only in such amounts and for such purposes contributing to economic stabilization as may be approved by the Supreme Commander, including the need for retirement of the national debt, especially the debt held by the Bank of Japan and other banking institutions.

The total amount is estimated to aggregate Y250,000 million, and Government bonds may well be redeemed through the proposed fund within a period of the coming two years. Government bonds held by city banks totalled Y146,000 million as of February, while those held by the Bank of Japan are estimated at Y60,000 million. The question of which of these two groups of Government bonds is redeemed first, however, has an important bearing upon the volume of currency. Even if Government bonds held by city banks were redeemed first, these financial institutions would derive little benefit in cash holdings, as they have already obtained loans of corresponding amounts from the Bank of Japan against their Government bonds as

Timber traders estimate that the actual supply is far greater than the official allotment every year. In 1947, for instance, production alone was estimated at 90,000,000 *koku* as against an allotment of 70,000,000 *koku*. The 90,000,000 *koku* annual felling, however, means reckless deforestation because Japan's forest resources are not too plentiful. Japan's forest resources are estimated at about 6,100 million *koku*, of which 4,300 million *koku* can be utilised as timber. On the assumption that standing trees grow 3 per cent annum, new felling will have to be restricted to 50-55 million *koku* annually in order to conserve the present forest resources. If so, 15-20 million *koku* of foreign timber will have to be imported annually for carrying out the 70 million *koku* allotment program. Incidentally, a close study of the nation's consumption in the past reveals that 70 million *koku* is the minimum demand.

For housing construction, over 20 million *koku* has been and can be used annually. In order to conserve forest resources, however, it is essential to economize in timber consumption and to utilize more non-inflammable materials, such as cement and steel, because wooden houses are frequently reduced to ashes.

securities. If, however, those held by the Bank of Japan are redeemed first, the volume of currency in circulation will accordingly shrink, thus creating certain financial repercussions.

In this connection, SCAP experts have clarified that such an action should coordinate with the legitimate needs of private and public credit. Proposals calling for Counterpart Fund advances to private and public investments will be considered in the light of the achievements by proposed recipients, of specific programs of rationalization and economic stabilization.

By and large, the operation of the Fund, which is estimated to reach Y175,000 million during the 1949-50 fiscal year, is expected to have vital effects upon Japan's postwar finance and economy. Fund releases, extended, will be repaid at a fixed rate of interest and in installment. At any rate, Fund releases will not be made for covering special account deficits or Reconstruction Finance Bank debentures. Thus, an expansion of currency may not be expected as of consequence.

According to the Economic Stabilization Board's estimate, the volume of currency in circulation will dwindle by Y42,00 million by March, 1950, through the medium of the Fund.

New Import Exchange Rate

The Government announced that the selling prices of imported articles as of April 1 were set at the exchange rate of Y330 to the dollar. A Government subsidy will be given to foodstuffs, fertilizers, coal for iron and steel, iron ore, pig iron, asbestos, graphite, copra and rubber, while price gains for raw cotton for making fishing nets (until June), hemp and tungsten, will be partially subsidized by the Government.

The domestic selling prices of other imported articles will go up. For example, prices of raw cotton for cotton goods for domestic consumption are being quoted at the new rate as from April 3 instead of Y77.00 to the dollar as was the case before that date. Hence, S.L.M. white 13/16 which was formerly quoted at Y29.80 per pound was raised to Y113.07. As a result, the prices of cotton yarn and cotton fabrics were tripled and doubled, respectively. The selling price of raw cotton for manufacturing export cotton goods was also revised on the basis of the new rate of Y330 to the dollar instead of Y250 to the dollar.

Simultaneously, the Government also revised the exchange rates for export goods, effective as from April 1, fixing the new highest rate at Y425 from Y450 to the dollar, for contracts received through the Boekiyo. (These rates should not be confused with the new single exchange rate of Yen 360.)